

CROCODILE GOLD CORP.

CONSOLIDATED FINANCIAL STATEMENTS
(Stated in United States dollars)

As at and for the years ended December 31, 2010 and 2009



INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Crocodile Gold Corp.

We have audited the accompanying consolidated financial statements of Crocodile Gold Corp., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of loss and comprehensive loss, consolidated statements of cash flows and consolidated statements of shareholders' equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Crocodile Gold Corp. as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
March 28, 2011

CROCODILE GOLD CORP.

Consolidated Balance Sheets
(stated in United States dollars)
As at December 31,

	2010	2009
ASSETS		
Current		
Cash and cash equivalents	\$ 22,782,593	\$ 25,434,131
Restricted cash	50,271	47,660
Amounts receivable (Note 5)	2,229,773	6,063,064
Inventories (Note 6)	8,807,187	8,164,890
Prepaid expenses	1,301,092	40,260
	35,170,916	39,750,005
Long-term		
Financial deposits (Notes 4 and 22 (h))	2,106,761	9,997,211
Restricted cash (Note 4)	12,673,216	-
Mineral interests (Note 7)	147,267,493	65,026,750
Deferred credit facility costs (Note 11)	-	2,382,995
	\$ 197,218,386	\$ 117,156,961
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 8)	\$ 13,985,174	\$ 24,032,555
Unrealized non-hedge derivative liability (Note 4)	-	58,608
Current portion of capital lease obligations (Note 10)	38,403	123,355
Asset retirement obligations - current (Note 9)	766,413	-
	14,789,990	24,214,518
Asset retirement obligations (Note 9)	7,556,272	5,783,414
Capital lease obligations (Note 10)	16,999	48,547
	22,363,261	30,046,479
SHAREHOLDERS' EQUITY		
Common shares (Note 12)	177,068,530	84,653,918
Warrants (Note 13)	8,055,367	14,768,044
Contributed surplus (Note 14)	5,174,062	2,624,206
	190,297,959	102,046,168
Deficit	(37,897,087)	(18,061,083)
Accumulated other comprehensive income	22,454,253	3,125,397
	(15,442,834)	(14,935,686)
	174,855,125	87,110,482
	\$ 197,218,386	\$ 117,156,961

Commitments and contingencies (Notes 1 and 22)
Subsequent events (Note 23)

APPROVED ON BEHALF OF THE BOARD:

Signed "Michael Hoffman", DIRECTOR

Signed "George Faught", DIRECTOR

The accompanying notes are an integral part of the consolidated financial statements.

CROCODILE GOLD CORP.

Consolidated Statements of Loss and Comprehensive Loss

(stated in United States dollars)

For the years ended December 31,

	2010	2009
Revenue		
Gold sales	\$ 73,178,056	\$ -
Silver sales	173,364	-
	73,351,420	-
Mine operating costs and expenses		
Operating expenses	63,726,536	-
Royalty expense	243,349	-
Reclamation accretion expense (Note 9)	524,081	84,042
Depreciation, depletion and amortization	9,810,492	162,200
Loss from mine operations	(953,038)	(246,242)
Other operating costs		
Care and maintenance	1,613,556	364,987
Professional, consulting and management fees	3,153,612	1,671,165
Other general and administrative expenses	1,309,894	614,839
Stock-based compensation (Note 15)	4,231,779	2,088,864
Loss from operations	(11,261,879)	(4,986,097)
Other items		
Interest and other income	948,749	72,133
Excess of purchase price over fair value of assets acquired (Note 3)	-	(12,326,762)
Realized gain on non-hedge derivatives	1,422,208	371,956
Unrealized gain on non-hedge derivatives	-	537,053
Write-off of financing cost (Note 11)	(2,417,389)	-
Accretion expense on liability component of preferred shares (Note 12 (g))	-	(463,727)
Amortization of liability component of the preferred share issue costs (Note 12 (g))	-	(84,978)
Impairment of mineral and exploration assets (Note 7)	(8,704,929)	-
Foreign exchange gain (loss)	177,236	(1,180,661)
Net loss for the year	\$ (19,836,004)	\$ (18,061,083)
Other comprehensive income items		
Unrealized gain on foreign currency translation	19,328,856	3,125,397
Comprehensive loss for the year	\$ (507,148)	\$ (14,935,686)
Net loss per share - basic and diluted	\$ (0.10)	\$ (0.27)
Basic weighted average common shares outstanding	195,012,359	67,756,755
Diluted weighted average common shares outstanding	195,012,359	67,756,755

The accompanying notes are an integral part of the consolidated financial statements.

CROCODILE GOLD CORP.

Consolidated Statements of Cash Flows

(stated in United States dollars)

For the years ended December 31,

	2010	2009
CASH (USED IN) PROVIDED BY		
OPERATING ACTIVITIES:		
Net loss for the year	\$ (19,836,004)	\$ (18,061,083)
Adjustments to reconcile net loss to cash provided from (used in) operating activities:		
Reclamation accretion expense	524,081	84,042
Depreciation, depletion and amortization	9,810,492	162,200
Stock-based compensation (Note 15)	4,231,779	2,088,864
Accretion expense on liability component of preferred shares	-	463,727
Amortization of liability component of the preferred share issue costs	-	84,978
Impairment of mineral and exploration assets	8,704,929	-
Excess of purchase price over fair value of assets acquired	-	12,326,762
Write-off of financing costs	2,417,389	-
Unrealized non-hedge derivative gain	-	(537,053)
Unrealized foreign exchange loss	275,270	910,593
Other	253,694	(45,328)
Net change in non-cash working capital	(118,614)	(3,107,011)
	6,263,016	(5,629,309)
INVESTING ACTIVITIES:		
Mineral property interests	(106,580,099)	(17,298,086)
Proceeds on pre-commercial production metal sales (Note 7)	26,706,031	-
GBS Gold Australia asset purchase (Note 4)	(13,224,984)	(24,734,225)
Decrease (increase) in reclamation deposits (Note 4)	10,217,907	(8,949,449)
Increase in restricted cash (Note 4)	(11,353,547)	-
Franc-Or asset purchase - net of cash acquired	(166,387)	(474,708)
	(94,401,079)	(51,456,468)
FINANCING ACTIVITIES:		
Deferred transaction costs	(62,853)	(31,730)
Repayment of capital lease obligations	(126,419)	(36,394)
Preferred share private placement	-	12,525,800
Private placements and public offerings	54,134,809	76,230,914
Cost of issue	(4,811,813)	(6,356,848)
Exercise of warrants	31,488,527	16,992
Exercise of options	3,137,160	36,797
	83,759,411	82,385,531
Effect of exchange rate changes on cash and cash equivalents	1,727,114	134,376
CHANGE IN CASH AND CASH EQUIVALENTS	(2,651,538)	25,434,130
CASH AND CASH EQUIVALENTS, beginning of year	25,434,131	1
CASH AND CASH EQUIVALENTS, end of year	\$ 22,782,593	\$ 25,434,131
Cash and cash equivalents consist of:		
Cash	\$ 22,782,593	\$ 17,362,031
Cash equivalents	-	8,072,100
	\$ 22,782,593	\$ 25,434,131

Supplemental Information (Note 17)

The accompanying notes are an integral part of the consolidated financial statements.

CROCODILE GOLD CORP.

Consolidated Statements of Shareholders' Equity

(stated in United States dollars)

For the years ended December 31,

	2010		2009	
Preferred shares				
Balance, beginning of year	\$	-	\$	-
Issued through a private placement, net		-		1,138,939
Preferred shares converted to common shares		-		(1,138,939)
Balance, end of the year	\$	-	\$	-
Common shares				
Balance, beginning of the year	\$	84,653,918	\$	1
Issued through private placements or public offerings, net		48,241,007		62,668,628
Preferred shares converted to common shares		-		9,491,502
Exercise of stock options		5,438,027		89,040
Exercise of warrants		38,735,578		27,368
Issued on the acquisition of Franc-Or Resources Corporation		-		11,375,609
Issued on the purchase of mining interests		-		1,001,770
Balance, end of the year	\$	177,068,530	\$	84,653,918
Common share purchase warrants				
Balance, beginning of year	\$	14,768,044	\$	-
Issued through private placements or public offering, net		-		8,998,259
Broker warrants issued on private placements or public offerings, net		627,214		1,915,754
Exercise of warrants		(7,247,051)		(10,376)
Expiry of warrants		(92,840)		-
Issued on the acquisition of Franc-Or Resources Corporation		-		1,554,167
Issued for standby credit facility		-		2,310,240
Balance, end of the year	\$	8,055,367	\$	14,768,044
Contributed surplus				
Balance, beginning of year	\$	2,624,206	\$	-
Stock option expense		4,757,883		2,162,056
Stock options exercised		(2,300,867)		(52,243)
Issued on the acquisition of Franc-Or Corporation		-		514,393
Expiry of warrants		92,840		-
Balance, end of the year	\$	5,174,062	\$	2,624,206
Deficit				
Balance, beginning of year	\$	(18,061,083)	\$	-
Net loss for the year		(19,836,004)		(18,061,083)
Balance, end of the year	\$	(37,897,087)	\$	(18,061,083)
Accumulated other comprehensive loss				
Balance, beginning of the year	\$	3,125,397	\$	-
Unrealized gain on foreign currency translation		19,328,856		3,125,397
Balance, end of the year	\$	22,454,253	\$	3,125,397
Total shareholders' equity	\$	174,855,125	\$	87,110,482

The accompanying notes are an integral part of the consolidated financial statements.

CROCODILE GOLD CORP.

Notes to the Consolidated Financial Statements
(in United States dollar, unless otherwise noted)
For the years ended December 31, 2010 and 2009

1. NATURE OF OPERATIONS AND GOING CONCERN

Crocodile Gold Corp. (individually, or collectively with its subsidiaries, as applicable, "Crocodile Gold" or the "Company") is a gold mining company. Crocodile Gold is the continuing combined entity following a November 2009 transaction between Crocodile Gold Inc. and Franc-Or Resources Corporation ("Franc-Or") whereby Franc-Or, a public company listed on the Toronto Stock Exchange ("TSX"), acquired all of the outstanding shares of the Company in exchange for common shares of Franc-Or (the "Transaction"). The Transaction was accounted for as a purchase of assets with Crocodile Gold Inc. as the acquirer and Franc-Or as the acquired. As such, these consolidated financial statements are a continuation of the consolidated financial statements of Crocodile Gold Inc. Following the Transaction, the combined company became known as Crocodile Gold Corp.

The Company's primary focus is the Burnside, Union Reef's and Pine Creek Projects in the Northern Territory of Australia. On June 19, 2009, the Company signed an Asset Sale Agreement ("ASA") to purchase these assets out of liquidation from GBS Gold Australia Pty Ltd. ("GBS Gold Australia"), as more fully described in Note 4. Commercial production from the Company's Union Reef mill was declared as of June 1, 2010. Prior to starting commercial production, the Company was a development stage entity as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11.

The business of exploration, development and mining of minerals involves a high degree of risk and there can be no assurance that current exploration, development and mining plans will result in profitable mining operations. The recoverability of the carrying value of assets and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, or, alternatively, upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs to the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting its exploration, development and mining activities, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal land claims and non-compliance with regulatory and environmental requirements.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The future of the Company is dependent on its ability to generate sufficient operating cash flow from its gold mining assets in the Northern Territory of Australia to fund its ongoing development expenditures and carry out its exploration program. The Company's expectation is that it will generate positive earnings and cash flows in future years, thereby making the going concern assumption appropriate. However, due to uncertainties surrounding a number of factors, such as the price of gold, actual operating costs, rate of taxation or foreign currency exchange rates, it is not possible to predict if the forecasts will prove to be accurate. If the going concern assumption was not appropriate for these consolidated financial statements then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. Such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles ("GAAP") consistently applied, except as disclosed. Outlined below are those policies considered particularly significant.

a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The principal subsidiaries include Crocodile Gold Inc., its wholly-owned Australian subsidiaries Crocodile Gold Australia Pty Ltd. and Crocodile Gold Australia Operations Pty Ltd. (collectively "Crocodile Gold Australia"), and Franc-Or Resources Peru S.A.C. All material inter-company transactions have been eliminated on consolidation.

CROCODILE GOLD CORP.

Notes to the Consolidated Financial Statements
(in United States dollar, unless otherwise noted)
For the years ended December 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported period. Such estimates and assumptions affect the carrying value of assets and impact decisions as to when exploration and development costs should be capitalized or expensed. Other significant estimates made by the Company include factors affecting the valuation of its inventories, mining properties and related asset retirement obligations, tax accounts, equity component of preferred shares, warrants and stock-based compensation and estimated mineral resources. The Company regularly reviews its estimates and assumptions; however, actual results could differ from these estimates and these differences could be material.

c) Foreign currency translation

The reporting currency of Crocodile Gold is the United States dollar ("US dollar"). The functional currency of Crocodile Gold is the Canadian dollar. The Company's foreign subsidiaries were considered to be integrated foreign operations in 2009. Accordingly, transactions and account balances originally stated in currencies other than the Canadian dollar were translated using the temporal method whereby monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates; and revenue and expenses are translated at the exchange rate in effect on the dates that they occur. As of January 1, 2010, with the start of production, the Australian subsidiaries were considered to be self-sustaining operations and the functional currency for the Australian subsidiaries became the Australian dollar.

The consolidated financial statements of the Canadian parent and the Australian subsidiaries are translated into the US dollar using the current rate method. Under this method, all assets and liabilities are translated at the year-end rate of exchange and all revenue and expense items are translated at the average rate of exchange for the year. Gains and losses on translation are included in equity as a separate component of accumulated other comprehensive income or loss.

Transactions in foreign currencies are translated into the currency of measurement at the exchange rates in effect on the transaction date. Monetary balance sheet items expressed in foreign currencies are translated into the functional currency at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in operations.

The Company's integrated foreign subsidiaries in Peru are financially dependent on the Company. The Company uses the temporal method to translate the accounts of its integrated operations into Canadian dollars. Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the period, except for amortization, which is translated on the same basis as the related asset. The resulting exchange gains or losses are recognized in operations.

The exchange rates between the US dollar and the Canadian and Australian dollars for the years ended December 31, 2010 and 2009 were as follows:

Year ended December 31,	2010		2009	
	Average	Closing	Average	Closing
US dollars per Canadian dollars	0.9706	1.0054	0.8797	0.9555
US dollars per Australian dollars	0.9192	1.0235	0.7927	0.8978
Canadian dollars per Australian dollars	0.9470	1.0180	0.8974	0.9395

Effective January 1, 2009, the Company changed its reporting currency to the United States dollar.

d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term investments with original maturities of three months or less. Cash and cash equivalents are held in Canadian chartered banks or in major financial institutions.

e) Inventories

Gold bullion, gold in circuit and ore stockpiles are valued at the lower of average production cost or net realizable value. Production costs include the cost of raw materials, direct labour, mine-site overhead expenses and depreciation and depletion of mining interests. Net realizable value is calculated as the estimated price at the time of sale based on prevailing metal prices less estimated costs of completion and costs to be incurred in the selling of the inventory. Supplies are valued at the lower of average cost and net realizable value.

CROCODILE GOLD CORP.

Notes to the Consolidated Financial Statements
(in United States dollar, unless otherwise noted)
For the years ended December 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Mineral interests

The acquisition costs and exploration and development expenses relating to mining properties, net of any pre-production revenues and related costs, in which the Company has an interest are deferred until the property is brought into production, at which time they are depleted on a unit-of-production basis based on proven and probable reserves. If the property is subsequently determined to be significantly impaired in value, the property and related deferred costs are written down to their net realizable value. The cost of an interest in a mining property abandoned or sold and its related deferred exploration costs are charged to operations in the current period.

g) Deferred mining expenditure

Capital development costs incurred during the production stage are deferred. Deferred mining expenditure includes the cost of decline and access development in underground operations and waste removal in open pit operations.

Depreciation is provided for over the life of the area of interest on a unit of production basis.

h) Impairment of long-lived assets

The Company reviews its long-lived assets including mining properties and property, plant and equipment, on a periodic basis to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. In reviewing its long-lived assets, the Company estimates the future cash flows expected to result from each asset and its eventual disposition. If the sum of the undiscounted, expected future cash flow is less than the carrying value of the asset, an impairment loss is recognized. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near-term could require a change in the determination of the need for and amount of any write down.

i) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Depreciation is provided for over the life of the area of interest on a unit of production basis. The remaining life of the present area of operation as at December 31, 2010 is estimated to be approximately 11 years. Depreciation on assets with a shorter useful life than the expected mine life is calculated using the straight-line method over the estimated useful lives of the related assets. Useful lives for mobile and other equipment range from 2 to 8 years, except for plant and equipment not currently in use and maintained in reasonable condition, which is depreciated over 20 years. Assets under construction are depreciated when they are substantially complete and available for their intended use, over their estimated useful lives. Repairs and maintenance of property, plant and equipment are expensed as incurred. Costs incurred to enhance the service potential of plant and equipment are capitalized and depreciated over the remaining useful life of the improved asset.

j) Asset retirement obligations

The Company is required to record a liability for the estimated future costs associated with legal obligations relating to the abandonment and reclamation of mineral properties and facilities. This amount is based on environmental management plans, in compliance with current environmental and regulatory requirements, and is initially recorded at its discounted present value with subsequent annual recognition of an accretion amount on the discounted liability included in operations. An equivalent amount is recorded as an increase to mining properties and amortized over the useful life of the properties. Increases or decreases to the obligation usually arise due to future development, changes in technology, changes in legal or regulatory requirements, the extent of environmental remediation required or methods of reclamation, cost estimates, changes in the proposed mining operations, changes in the timing of reclamation, or changes in interest rates. The present value of the estimated costs of these changes is recorded in the period in which the change is identified and quantified. Changes to asset retirement obligations related to operating mines are recorded with an offsetting charge to the related asset. The present value is determined using the Company's credit adjusted risk-free interest rate.

CROCODILE GOLD CORP.

Notes to the Consolidated Financial Statements
(in United States dollar, unless otherwise noted)
For the years ended December 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Preferred shares

Preferred shares are segregated into their debt and equity components at the date of issue, based on the relative fair market values of these components in accordance with the substance of the agreement. The debt component of the preferred shares is classified as a liability, and recorded as the present value of the Company's obligation to settle the repurchase obligation of the preferred shares. The carrying value of the debt component is accreted to the original face value of the instruments, over the term of the preferred shares, using the effective interest method. The value of the right to convert to common shares makes up the equity component of the instruments. The right to convert to common shares is recorded using the residual value approach.

l) Revenue recognition

Revenue from the sale of gold, silver, and doré is recognized when persuasive evidence of a sale arrangement exists, the risks and rewards of ownership passes to the purchaser, the selling price is fixed or determinable, and collectability is reasonably assured.

m) Loss per share

Basic loss per common share has been computed by dividing the earnings applicable to common shareholders by the weighted-average number of common shares outstanding during the representative periods. Diluted loss per common share is determined using the treasury stock method under which deemed proceeds on the exercise of stock options and other dilutive instruments are considered to be used to reacquire common shares at the average price for the period with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease the loss per share. As at December 31, 2010 and 2009, all options and warrants were excluded from the calculation of diluted loss per share because they were anti-dilutive.

n) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the enacted or substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

o) Stock-based compensation

The Company records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of common shares is based on the quoted market value. Prior to the establishment of a market value for the Company's common shares, the fair value of common shares was based on the most recent private placement. The fair value of stock options is determined using the Black-Scholes option-pricing model with market related inputs as of the date of grant. The compensation expense is recognized over the vesting period. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to share capital.

p) Financial instruments

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading" financial instruments, "available-for-sale" financial assets, "held-to-maturity" investments, "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net loss for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet, or until any impairment is determined to be other than temporary. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net loss for the period, unless the instrument is a cash flow hedge and hedge accounting is applied, in which case changes in fair value are recognized in other comprehensive income.

CROCODILE GOLD CORP.

Notes to the Consolidated Financial Statements
(in United States dollar, unless otherwise noted)
For the years ended December 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Comprehensive income (loss)

Comprehensive income (loss), composed of net income (loss) and other comprehensive income (loss), is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income (loss) ("OCI") includes unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivatives designated as cash flow hedges, all net of related income taxes. The components of comprehensive income (loss) are disclosed in the statement of loss and comprehensive income (loss). Cumulative changes in other comprehensive income (loss) are included in accumulated other comprehensive income ("AOCI") which is presented as a new category in shareholders' equity.

r) Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

s) Changes in accounting policies

Business Combinations

In January 2009, the CICA issued Handbook Sections 1582 – Business Combinations ("Section 1582"), 1601 – Consolidated Financial Statements ("Section 1601") and 1602 – Non-controlling Interests ("Section 1602") which replace CICA Handbook Sections 1581 – Business Combinations and 1600 – Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that are equivalent to the business combination accounting standards under International Financial Reporting Standards ("IFRS"). Sections 1601 and 1602 establish standards for preparation of consolidated financial statements and the accounting for non-controlling interests in financial statements that are equivalent to the standards under IFRS. Section 1582 is required for the Company's business combinations with acquisition dates on or after January 1, 2011. Sections 1601 and 1602 are required for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Earlier adoption of these sections is permitted, which requires that all three sections be adopted at the same time. As a result of the Section 1582 definition of a business being an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return to its investors and owners, acquisitions of exploration properties, may, under certain circumstances, be accounted for as business combinations. The adoption of Section 1582 will also have an impact on the treatment of transaction costs relating to these business combinations. Transaction costs accounted for under Section 1582 are no longer capitalized but rather, expensed as incurred. In accordance with Section 1602, non-controlling interests will be classified as part of equity and net earnings or losses and total comprehensive income or losses will include the portion attributable to non-controlling interests. The early adoption of these standards by the Company, effective January 1, 2010, had no impact on these consolidated financial statements.

t) Recent accounting pronouncements

International Financial Reporting Standards ("IFRS")

Canadian public companies will be required to prepare their financial statements in accordance with IFRS, as issued by the International Accounting Standards Board, for financial years beginning on or after January 1, 2011. Effective January 1, 2011, the Company will adopt IFRS as the basis for preparing its consolidated financial statements. The Company will issue its financial results for the quarter ended March 31, 2011 prepared on an IFRS basis and provide comparative data on an IFRS basis as required. The Company's Australian subsidiaries, as required under Australian regulatory requirements, have prepared consolidated financial statements in accordance with IFRS for the years ended December 31, 2010 and 2009.

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3. TRANSACTION WITH FRANC-OR RESOURCES CORPORATION ("FRANC-OR")

On November 3, 2009, following the receipt of regulatory and shareholder approval, Crocodile Gold Inc. and Franc-Or completed a three-cornered amalgamation pursuant to which a wholly-owned subsidiary of Franc-Or amalgamated with Crocodile Gold Inc., and all of the holders of common shares of Crocodile Gold Inc. received one common share of Franc-Or (on a post-consolidation basis) for each one common share of Crocodile Gold Inc. held. Following completion of the Transaction, the newly amalgamated company held all of Crocodile Gold Inc.'s assets and is a wholly-owned subsidiary of Crocodile Gold Corp. (formerly Franc-Or).

Prior to the effective time of the Transaction, Franc-Or completed a consolidation (the "Consolidation") of its issued and outstanding common shares on the basis of one new Franc-Or common share for each 6.3 existing Franc-Or common shares. In addition, immediately prior to the Transaction, 20,000,000 preferred shares of Crocodile Gold Inc. converted into Crocodile Gold Inc. common shares on a one-for-one basis and Crocodile Gold Inc. issued 35,000,000 common shares as part of the private placement described below. As a result, immediately prior to the Transaction, Crocodile Gold Inc. had 126,490,433 issued and outstanding common shares on a non-diluted basis. Franc-Or, following the Consolidation, had 10,172,711 issued and outstanding common shares on a non-diluted basis. Based on the issued and outstanding common shares of Crocodile Gold Inc. and Franc-Or immediately prior to the Transaction, the number of common shares of Franc-Or following the completion of the Transaction (on a non-diluted basis) was 136,663,144, with Crocodile Gold Inc. shareholders owning approximately 92.6% of Franc-Or and Franc-Or shareholders owning approximately 7.4% of Franc-Or.

The Transaction was accounted for as a purchase of assets with Crocodile Gold Inc. as the acquirer and Franc-Or as the acquired. The consolidated financial statements following the Transaction present a continuation of Crocodile Gold Inc. and the acquisition of Franc-Or by Crocodile Gold Inc. Total consideration for Franc-Or was \$14,400,448, consisting primarily of the value of the Franc-Or shares converted to Crocodile Gold Corp. shares. As the acquisition has been accounted for as a purchase of assets, the value of the shares issued, on a consolidated basis, was C\$1.197 (\$1.118) per share, which was based on the closing price of the Franc-Or shares (C\$0.19 per share; \$0.177 per share) on the Toronto Stock Exchange on the date of completion, November 3, 2009. On the completion of the transaction with Franc-Or, the Company determined that the purchase price exceeded the fair value of net assets acquired by \$12,326,762 and has recorded this amount as a charge on the statement of loss and comprehensive loss.

The purchase price was calculated as follows:

Common shares issued	\$11,375,609
Fair value of stock options issued	514,392
Fair value of warrants issued	1,554,167
Transaction costs	956,280
	<hr/>
	\$14,400,448
Net assets acquired:	
Cash and cash equivalents	\$ 286,010
Mineral exploration and development properties	1,857,362
Non-cash working capital deficiency	(69,686)
Excess of purchase price over fair value of net assets acquired	12,326,762
	<hr/>
	\$14,400,448

Following completion of the Transaction, the board and management of Crocodile Gold Inc. became the board and management of the combined entity which was renamed Crocodile Gold Corp. and began trading on the TSX under the symbol "CRK" on November 6, 2009.

CROCODILE GOLD CORP.

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4. PURCHASE OF MINING ASSETS

On September 15, 2008, GBS Gold Australia, a company resident in Australia and a wholly-owned subsidiary of GBS Gold International Inc., was placed in voluntary administration. Claims of creditors were stayed for an administration period with the principal aim of allowing GBS Gold Australia and its subsidiaries to be restructured, recapitalized or sold. GBS Gold International Inc. was incorporated in Canada and traded on the Toronto Stock Exchange ("TSX").

On March 26, 2009, Crocodile Gold entered into an agreement with GBS Gold Australia and its Administrators to purchase substantially all of the assets of GBS Gold Australia for \$51,000,000 Australian dollars ("A\$") which was subsequently reduced to A\$50,000,000 (\$40,145,000) with the removal of an asset from Western Australia. The purchase price of A\$50,000,000 included A\$8,011,500 (\$6,432,433) used to replace an existing guarantee posted by a secured creditor with the Northern Territory government with respect to reclamation bonds. Crocodile Gold provided a deposit of A\$5,000,000 (\$4,014,500) upon entering into the agreement.

On June 19, 2009, the ASA between Crocodile Gold and GBS Gold Australia for the purchase of substantially all of GBS Gold Australia's assets was finalized and a payment of A\$15,000,000 (\$12,043,500) was made by Crocodile Gold. A subsequent payment of A\$15,000,000 (\$13,308,000) was made in December 2009 and a final payment of A\$15,000,000 (\$13,224,984) was made in June 2010.

The ASA provided GBS Gold Australia the option to receive the deferred payments totaling A\$30,000,000 in Canadian dollars ("C\$") at an exchange rate of C\$0.86165 : A\$1.00. The value of this embedded derivative was estimated to be \$717,529 at the date of the agreement and was included as part of the purchase cost. The resulting liability was recorded on the balance sheet as an unrealized non-hedge derivative liability. At December 31, 2009, the estimated fair value of this embedded derivative on the remaining A\$15,000,000 deferred payment was \$58,608. With the final payment in June 2010 being made in Australian dollars, the option expired unexercised and a realized gain on non-hedge derivative was recorded on the statement of loss and comprehensive loss on the reversal of this liability balance.

The total cost of the assets acquired on June 19, 2009, was as follows:

Cash payments (A\$20 million)	\$16,058,000
Deferred payments (A\$30 million discounted to payment dates)	23,218,971
Estimated fair value of A\$:C\$ currency option provided to GBS Gold Australia	717,529
Acquisition costs, including Northern Territory stamp duty	3,519,408
	<u>\$43,513,908</u>

The net assets acquired were allocated as follows:

Supplies inventory	\$ 900,509
Reclamation deposits	6,432,433
Property, plant and equipment	25,301,740
Mining properties	15,450,955
Asset retirement obligations	(4,571,729)
	<u>\$43,513,908</u>

The assumption and assignment of all material agreements with third parties that held interests in the properties and tenements being acquired from GBS Gold Australia by Crocodile Gold was completed in November 2009 and on November 6, 2009, the Company received notification from the Northern Territory government that title to the licences and tenements acquired from GBS Gold Australia had been registered in the name of Crocodile Gold and the A\$20,000,000 held in escrow was released.

In November 2009, following the registration of title in the name of Crocodile Gold, the Company was notified by the Northern Territory government that an additional reclamation and remediation deposit of A\$3,104,905, above the A\$8,011,500 already paid as part of the ASA, was required bringing the total reclamation deposit to A\$11,116,405. In March 2010, the deposit with the Northern Territory government was replaced with a bank guarantee in the amount of A\$12,236,405 (\$12,524,292), which includes additional deposits of A\$1,120,000 to secure power and water obligations. The Company has provided cash equal to 100% of the bank guarantee as collateral to the bank providing the guarantee. The cash provided as collateral is recorded on the December 31, 2010 consolidated balance sheet as restricted cash, which also includes environmental security bonds totaling A\$145,501 (\$148,924). Additional detail on the reclamation liability is provided in Note 9.

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5. AMOUNTS RECEIVABLE

	December 31, 2010	December 31, 2009
GST receivable (Australian and Canadian)	\$ 1,790,170	\$ 5,293,550
Other receivables	439,603	769,514
Total amounts receivable	\$ 2,229,773	\$ 6,063,064

6. INVENTORIES

	December 31, 2010	December 31, 2009
Supplies	\$ 3,653,624	\$ 623,084
Ore stockpiles	1,761,264	6,111,183
Gold in circuit	3,226,704	1,239,943
Gold bullion	165,595	190,680
Total inventories	\$ 8,807,187	\$ 8,164,890

All inventories are carried at the lower of cost or net realizable value. At December 31, 2010 and 2009, portions of ore stockpiles, gold in circuit and gold bullion were carried at net realizable value. During the twelve months ended December 31, 2010, the Company recorded impairments to reduce the carrying value of its inventory down to its net realizable value. Impairment charges to reduce inventory to net realizable value during the pre-commercial production period of January 1, 2010 to May 31, 2010 have been charged to mining properties. Impairment charges since commercial production was declared June 1, 2010 have been recorded as an operating expense on the statement of loss and comprehensive loss. Supplies are carried at their average cost.

7. MINING INTERESTS

	December 31, 2010		
	Cost	Accumulated depreciation, depletion and amortization	Net book value
Property, plant and equipment	\$ 46,763,010	\$ (4,445,230)	\$ 42,317,780
Mining properties			
Producing	43,006,966	(3,731,955)	39,275,011
Non-producing	60,629,049	(180,804)	60,448,245
	103,636,015	(3,912,759)	99,723,256
Deferred exploration	5,226,457	-	5,226,457
Total mining interests	\$ 155,625,482	\$ (8,357,989)	\$ 147,267,493

	December 31, 2009		
	Cost	Accumulated depreciation, depletion and amortization	Net book value
Property, plant and equipment	\$ 31,692,079	\$ (820,345)	\$ 30,871,734
Mining properties – non producing	34,155,016	-	34,155,016
Total mining interests	\$ 65,847,095	\$ (820,345)	\$ 65,026,750

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7. MINING INTERESTS (Continued)

A summary by geographic location of the net book value of property, plant and equipment, and mining properties as at December 31, 2010 and 2009 is as follows:

	December 31, 2010			
	Property, plant and equipment	Mining properties	Deferred exploration	Total December 31, 2010
Australia	\$ 42,317,780	\$ 97,712,397	\$ 5,226,457	\$ 145,256,634
Peru	-	2,010,859	-	2,010,859
Total mining interests	\$ 42,317,780	\$ 99,723,256	\$ 5,226,457	\$ 147,267,493

	December 31, 2009			
	Property, plant and equipment	Mining properties	Deferred exploration	Total December 31, 2009
Australia	\$ 30,871,734	\$ 21,685,094	\$ 10,563,526	\$ 63,120,354
Peru	-	1,906,396	-	1,906,396
Total mining interests	\$ 30,871,734	\$ 23,591,490	\$ 10,563,526	\$ 65,026,750

Until May 31, 2010, all of the Company's Australia operations were in pre-commercial production having not yet finished the start-up phase. As a result, operating costs during the five months ended May 31, 2010 of \$43,578,954, less proceeds on the sale of gold of \$26,706,031, have been capitalized to mining interests. Commercial production was declared at the Union Reefs mill on June 1, 2010; however, activities at the Company's Tom's Gully mine remained pre-commercial in nature and continued to be capitalized until August 31, 2010 when the decision was made to defer the startup of the Tom's Gully operation. Cost incurred at Tom's Gully since August 31, 2010 has been charged to care and maintenance, except in December 2010 when operating costs of \$1,433,349, less proceeds on the sale of gold recovered of \$352,428, were capitalized to mining interests. Also capitalized to mining interests during the period between January 1, 2010 and May 31, 2010 was the interest expense related to the discount on the deferred payment to GBS Gold Australia of \$349,397. During the year ended December 31, 2009, pre-commercial operating costs of \$3,159,536 were deferred to mining interests, which included depreciation and depletion of \$906,985 and \$617,471 of interest expense on the deferred payments to GBS Gold Australia. As at December 31, 2010, mining interests with a net book value of \$61,194,114 (2009 - \$26,714,755) were not being depreciated.

During the year ended December 31, 2010, the Company recorded an impairment charge of \$8,299,703 against the Brock's Creek underground mine. Mining at Brock's Creek is scheduled to be ended during the first half of 2011.

During the year ended December 31, 2010, the Company decided not to exercise its option on properties referred to as the "TOP" tenements, which were acquired in the purchase of the GBS mining assets. On acquisition of the GBS Gold Australia assets, the TOP tenements were allocated a value of \$289,636 of the total purchase price. With the decision not to exercise its option on the TOP tenements, the Company has written off the value assigned to these tenements and has recorded a charge on the consolidated statement of loss and comprehensive loss. Costs incurred during the year ended December 31, 2010 at the Company's Mario property in Peru were also written off bringing the total write-down on exploration properties to \$405,226.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2010	December 31, 2009
Accounts payable	\$ 3,607,774	\$ 297,562
Accrued liabilities	10,377,400	10,587,663
Discounted value of deferred payment on purchase of mining assets	-	13,147,330
Total accounts payable and accrued liabilities	\$ 13,985,174	\$ 24,032,555

As at December 31, 2009, accounts payable and accrued liabilities included the discounted value of the final A\$15,000,000 deferred payment on the purchase of mining assets, which was paid in June 2010 (see Note 4).

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9. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations ("ARO") are based on management's estimates of costs to abandon and reclaim mineral properties and facilities as well as an estimate of the future timing of the costs to be incurred. The following table presents the reconciliation of the beginning and ending carrying amount of the ARO associated with the retirement of the Company's mining properties, plant and equipment:

	December 31, 2010	December 31, 2009
Balance, beginning of the year	\$ 5,783,414	\$ -
Liabilities acquired on purchase of GBS Gold Australia mining assets (Note 4)	-	4,571,729
Liability acquired on the purchase of Mt. Bundy	-	249,085
Increase in estimate of costs to abandon and reclaim mineral properties and facilities	641,645	-
Accretion expense		
- Capitalized	381,358	306,826
- Expensed	524,081	84,042
Foreign exchange	992,187	571,732
Balance, end of the year	\$ 8,322,685	\$ 5,783,414
Current portion of asset retirement obligation	766,413	-
Long-term portion of asset retirement obligation	\$ 7,556,272	\$ 5,783,414

With the purchase of the mining assets of the former GBS Gold Australia on June 19, 2009 and the purchase of the Mt. Bundy gold project on July 22, 2009, the Company recorded an ARO of \$4,820,814 in 2009. The ARO was estimated based on total undiscounted future liabilities of approximately A\$13,666,000 (\$14 million), an inflation rate assumption of 3% and a credit adjusted risk-free rate of 14%. Reclamation is expected to occur primarily between the next one to 14 years. During the year ended December 31, 2010, the Company has recorded accretion expense of \$905,439 (2009 - \$390,868). Accretion expense relating to operations under development, totaling \$381,358, has been capitalized to development expenditures. The balance of \$524,081 has been expensed on the consolidated statement of loss and comprehensive loss.

10. CAPITAL LEASE OBLIGATIONS

At December 31, 2010, the Company has liabilities on equipment under capital lease totaling \$55,402 (December 31, 2009 - \$171,902). Repayments on the capital leases end in 2012. During the year ended December 31, 2010, the Company recorded interest expense related to the capital leases of \$11,938, of which \$7,311 relates to the pre-commercial production period to May 31, 2010 and has been charged to mining interests. The balance has been charged to the statement of loss and comprehensive loss. As at December 31, 2010, equipment under capital lease had a net book value of \$211,170 (December 31, 2009 - \$208,436). The following is a schedule of future minimum lease payments for the periods ended December 31, 2010 and 2009, required under these facilities:

	December 30, 2010	December 31, 2009
2010	\$ -	\$ 130,695
2011	41,679	36,523
2012	17,365	15,218
Total minimum lease payments	\$ 59,044	\$ 182,436
Less amount representing interest	(3,642)	(10,534)
Present value of net minimum lease payments	\$ 55,402	\$ 171,902
Current portion of obligation under capital lease	(38,403)	(123,355)
Long-term portion of obligation under capital lease	\$ 16,999	\$ 48,547

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11. STANDBY CREDIT FACILITY

In October 2009, the Company entered into a \$25 million standby secured credit facility which allowed the Company to draw on the credit facility, in full, at any time prior to June 30, 2010. The Company chose not to draw down on the credit facility and it expired on June 30, 2010. The credit facility was to be used to finance the development of the Company's assets in the Northern Territory of Australia.

The Company paid a commitment fee of 4,000,000 common share purchase warrants ("Standby Credit Facility Warrant"). Each Standby Credit Facility Warrant is exercisable into one common share of the Company at a price of C\$1.50 for a period of three years. The fair value of the common share purchase warrants was estimated at C\$2,400,000 (\$2,310,240) on the date of grant using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 2.1%; and, an expected life of three years.

The estimated fair value of \$2,310,240 for the common share purchase warrants was classified as a transaction cost as defined under CICA Handbook Emerging Issues Committee Abstract No. 94, Accounting for Corporate Transaction Costs ("EIC-94"). As a result, these costs, along with other deferred costs related to the Marret credit facility, were accounted for as an asset on the consolidated balance sheet as "Deferred credit facility costs" to be offset against the expected proceeds from the facility as permitted under EIC-94. The facility would then have been accreted to its face value over the term of the borrowing using the effective interest rate method. With the expiry of the standby credit facility, the deferred costs of \$2,417,389 have been charged to the statement of loss and comprehensive loss as a financing cost during 2010.

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12. SHARE CAPITALAuthorized

Unlimited number of common shares and preferred shares without par value.

Issued

Common shares issued	Number of Shares	Value
Balance, December 31, 2008	1	\$ 1
Shares issued on private placement:		
January ^(a)	10,000,000	66
March ^(b)	39,000,000	6,094,920
May ^(c)	6,000,000	1,094,760
June ^(d)	14,490,430	6,493,853
October ^(e)	35,000,000	25,600,919
Prospectus financing – December ^(f)	22,195,000	23,384,110
Conversion of preferred shares into common shares ^(g)	20,000,000	9,491,502
Shares issued on purchase of Mt. Bundy Gold Project ^(h)	2,000,000	1,001,770
Exercise of stock options	129,444	36,797
Exercise of stock options – option valuation	-	52,243
Exercise of warrants	23,809	16,992
Exercise of warrants – warrant valuation	-	10,376
Common shares issued on the transaction with Franc-Or ⁽ⁱ⁾	10,172,711	11,375,609
Balance, December 31, 2009	159,011,395	\$ 84,653,918
Shares issued on prospectus financings:		
June ^(j)	17,710,000	19,744,752
November ^(k)	20,000,000	24,593,184
November (overallotment) ^(k)	3,000,000	3,903,071
Exercise of stock options	4,446,492	3,137,160
Exercise of stock options – option valuation	-	2,300,867
Exercise of warrants	24,554,555	31,488,527
Exercise of warrants – warrant valuation	-	7,247,051
Balance, December 31, 2010	228,722,442	\$ 177,068,530

- (a) In January 2009, the Company completed a private placement financing, issuing 10,000,000 common shares of the Company for total gross proceeds of C\$80 (\$66) to the founders of the Company.
- (b) In March 2009, the Company completed a private placement financing, issuing 39,000,000 common shares of the Company at a price of C\$0.20 per share for gross proceeds of \$6,094,920. Directors and officers of the Company subscribed for 875,000 shares for total proceeds of \$136,745. In addition, Forbes & Manhattan also participated in the private placement by subscribing for 4,925,000 common shares.
- (c) In May 2009, the Company completed a private placement financing, issuing 6,000,000 common shares of the Company at a price of C\$0.20 per share for gross proceeds of \$1,094,760.
- (d) In June 2009, the Company completed a private placement financing, issuing 14,490,430 units at a price of C\$0.70 per unit for gross proceeds of C\$10,143,301 (\$8,944,364). Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant is exercisable at C\$1.00 for three years from the date of issue. Net proceeds were \$8,302,855, of which \$6,493,853 was allocated to common shares and \$1,809,002 to warrants.

CROCODILE GOLD CORP.

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12. SHARE CAPITAL (Continued)

- (e) On October 9, 2009, the Company completed a private placement of 35,000,000 subscription receipts at a price of C\$1.00 per subscription receipt raising gross proceeds of C\$35,000,000 (\$33,575,500). Each subscription receipt was exercisable without further action required on the part of the holder into one common share and one-half of a common share purchase warrant. Each warrant entitled the holder to acquire one common share at a price of C\$1.50 for a period of two years following the release of the proceeds from escrow. The Company also extended to the underwriters an option to purchase up to an additional 20,000,000 subscription receipts (C\$20,000,000), exercisable at the same issue price at any time up to the earlier of (i) 30 days following closing of the Offering and (ii) three days prior to the closing of the transaction with Franc-Or. The option expired unexercised.

Underwriting fees of C\$2,100,000 (\$2,014,530) were paid on the private placement. In addition, 2,100,000 compensation options were issued to the underwriters that entitle the holders to acquire the same number of subscription receipts at a price of C\$1.00 for a period of two years following the release of the financing proceeds.

After share issue costs, including the fair value assigned to the compensation options, a net amount of C\$31,451,281 (\$30,171,214) was recorded to shareholders' equity, of which C\$26,687,083 (\$25,600,919) was allocated to common shares and C\$4,764,198 (\$4,570,295) to warrants.

The 17,500,000 warrants issued as part of the private placement had an accelerated expiry provision. On January 18, 2010, after meeting the required conditions, the Company exercised its right to accelerate the expiry date of these warrants. Additional details are provided below in Note 13 (c), "Warrants".

- (f) On December 18, 2009, the Company completed a prospectus financing of 22,195,000 common shares at a price of C\$1.30 per share raising net proceeds of C\$24,969,686 (\$23,384,110). Share issue costs included underwriter fees of C\$1,731,210 (\$1,621,278) and success fees of C\$800,000 (\$749,200) paid to Forbes & Manhattan, Inc. ("Forbes & Manhattan"), as per the agreement the Company signed with Forbes & Manhattan, as outlined below under Note 22, "Commitments and Contingencies". A director of the Company, Stan Bharti, is an officer and director of Forbes & Manhattan. In addition, 1,331,700 compensation options were issued to the underwriters that entitle the holder to acquire the same number of common shares at a price of C\$1.30 for a period of two years.

- (g) On June 12, 2009, as part of a private placement, 20,000,000 units were issued at a price of C\$0.70 per unit for gross proceeds of C\$14,000,000 (\$12,525,800). Each unit consisted of one preferred share and one-half of one common share purchase warrant. The preferred shares automatically converted into common shares upon the Company obtaining a listing on the TSX and completing a financing above C\$0.60 per share, which occurred on November 3, 2009. Each whole common share purchase warrant was exercisable at C\$1.00 for three years from the listing of the Company's common shares on the TSX. Total net proceeds after issuing costs of C\$1,077,500 (\$964,039), were C\$12,922,500 (\$11,561,761), of which C\$9,995,302 (\$8,942,797) was allocated to the preferred shares and C\$2,927,198 (\$2,618,962) to the warrants.

In the event that the preferred shares had not converted into common shares within three years of their issuance, the Company was obligated to repurchase them from the holder at a price of C\$0.70 per preferred share. As a result, the preferred shares were classified on issuance as a liability, with the exception of the portions relating to the right to convert to common shares and the attached warrants, resulting in the carrying value of the preferred shares being less than its face value. The liability component of the preferred shares was allocated C\$8,722,318 (\$7,803,858) and the equity component was allocated C\$1,272,984 (\$1,138,939) of the total allocated to the preferred shares.

On November 3, 2009, with the preferred shares converting to common shares, the obligation to repurchase the preferred shares from the holder disappeared and the liability component totaling C\$9,335,601 (\$8,352,563), net of related share issued costs, was charged to common shares. In addition, the equity component of the preferred shares totaling C\$1,272,984 (\$1,138,939), net of related share issue costs, was charged to common shares.

- (h) On July 21, 2009, the Company paid C\$100,000 (\$91,070) and issued 2,000,000 Crocodile Gold common shares to Valere Mining Ltd. ("Valere") for its 80% interest in the Mt. Bundy Gold Project pursuant to an asset purchase agreement. The fair value of the 2,000,000 Crocodile Gold common shares was estimated to be C\$1,100,000 (\$1,001,770), or C\$0.55 per common share. The estimated fair value of the common shares was based on the value assigned to the Crocodile Gold common shares in the June 15, 2009 private placement. Certain directors and officers of Crocodile Gold were also shareholders of Valere. See Note 21, "Related Party Transactions".

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12. SHARE CAPITAL (Continued)

- (i) On November 3, 2009, 10,172,711 shares were issued on the completion of the transaction with Franc-Or. The common shares were assigned a value of C\$1.197 per share, or C\$12,176,845 (\$11,375,609). In addition, 3,823,410 warrants were issued in the transaction with Franc-Or (Note 3). Some of the warrants issued had an accelerated expiry provision. On January 18, 2010, after meeting the required conditions, the Company exercised its right to accelerate the expiry date of these warrants. Additional details are provided below in Note 13 (f), "Warrants".
- (j) On June 16, 2010, the Company completed a prospectus financing of 17,710,000 common shares at a price of C\$1.30 (\$1.27) per share raising C\$20,211,593 (\$19,744,752), net of issue costs and compensation warrants. The total number of shares issued included a 15% over-allotment that was exercised by the underwriters in full, representing 2,310,000 shares. Share issue costs included underwriter fees of C\$1,151,150 (\$1,124,558) and a success fee of C\$550,000 (\$537,295) paid to Forbes & Manhattan, as per the agreement the Company signed with Forbes & Manhattan, as outlined below under Note 22, "Commitments and Contingencies". A director of the Company, Stan Bharti, is an officer and director of Forbes & Manhattan. In addition, 930,500 compensation options were issued to the underwriters that entitle the holder to acquire the same number of common shares at a price of C\$1.30 for a period of two years.
- (k) On November 22, 2010, the Company completed a prospectus financing, on a bought deal basis, issuing 20,000,000 common shares at a price of C\$1.40 (\$1.37) per share raising C\$25,054,181 (\$24,593,184), net of issue costs. Share issue costs included underwriter fees of C\$1,680,000 (\$1,649,088) and a success fee of C\$800,000 (\$804,343) payable to Forbes & Manhattan, as per the agreement the Company signed with Forbes & Manhattan, as outlined below under Note 22, "Commitments and Contingencies". A director of the Company, Stan Bharti, is an officer and director of Forbes & Manhattan. In addition, the Company granted the underwriters an over-allotment option to purchase up to an additional 3,000,000 common shares at C\$1.40 (\$1.37) per share, exercisable in whole or in part, at any time on or prior to the date that is 30 days following the closing of the offering. On December 8, 2010, the over-allotment option was exercised in full, and an additional C\$3,941,700 (\$3,903,071), net of issue costs, was raised bringing the aggregate net proceeds to C\$28,995,881 (\$28,496,255).

13. WARRANTS

Summary of warrant activity:

	Number of warrants	Weighted average exercise price (C\$)
Balance, December 31, 2008	-	\$ -
Warrants issued on private placements:		
June 12, 2009 preferred share private placement ^(a)	10,000,000	1.00
June 15, 2009 common share private placement ^(b)	7,245,215	1.00
October 9, 2009 common share private placement ^(c)	17,500,000	1.50
Compensation options issued on financings:		
October 9, 2009 ^(c)	2,100,000	1.00
December 18, 2009 ^(d)	1,331,700	1.30
Warrants issued for \$25 million standby credit facility ^(e)	4,000,000	1.50
Warrants issued on transaction with Franc-Or ^(f)	3,823,410	0.97
Warrants exercised	(23,809)	(0.76)
Balance, December 31, 2009	45,976,516	\$ 1.24

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13. WARRANTS (Continued)

Summary of warrant activity (Continued):

	Number of warrants	Weighted average exercise price (C\$)
Balance, December 31, 2009	45,976,516	\$ 1.24
Warrants issued on exercise of compensation options	1,050,000	1.49
Compensation options issued June 2010 financing ^(a)	930,500	1.30
Warrants exercised		
June 15, 2009 common share private placement	(516,714)	(1.00)
October 9, 2009 common share private placement ^(c)	(17,479,988)	(1.50)
December 18, 2009 common share private placement ^(d)	(66,585)	(1.30)
Issued on transaction with Franc-Or ^(f)	(3,341,268)	(0.76)
Compensation options	(2,100,000)	(1.00)
Compensation options warrants	(1,050,000)	(1.49)
Warrants expired	(478,345)	(2.48)
Balance, December 31, 2010	22,924,116	\$ 1.12

- (a) On June 12, 2009, 20,000,000 units were issued at a price of C\$0.70 per unit for gross proceeds of C\$14,000,000 (\$12,525,800). Each unit consisted of one preferred share and one-half of one common share purchase warrant. Each common share purchase warrant is exercisable at C\$1.00 for three years from the listing of the Company's common shares on the TSX which occurred on November 6, 2009 and had an estimated grant date fair value of \$2,618,962, net of issue costs of \$218,374. The fair value of the 10,000,000 warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 2.0%; and, an expected life of three years from the listing date of November 6, 2009.
- (b) On June 15, 2009, the Company completed a private placement financing issuing 14,490,430 units at a price of C\$0.70 per unit for gross proceeds of C\$10,143,303 (\$8,944,364). Each unit consisted of one common share and one-half of one common share purchase warrant. Each common share purchase warrant is exercisable at C\$1.00 for three years from the date of issue and had an estimated grant date fair value of \$1,809,002, net of issue costs of \$139,771. The fair value of the 7,245,215 warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 2.0%; and, an expected life of three years from the issue date of June 15, 2009.
- (c) On October 9, 2009, the Company completed a private placement of 35,000,000 subscription receipts at a price of C\$1.00 per subscription receipt raising gross proceeds of C\$35,000,000 (\$33,575,500). Each subscription receipt was exercisable without further action required on the part of the holder into one common share and one-half of a common share purchase warrant. Each warrant entitled the holder to acquire one common share at a price of C\$1.50 for a period of two years following the release of the proceeds from escrow and had an estimated grant date fair value of \$4,570,295, net of issue costs of \$515,677. The fair value of the 17,500,000 warrants was estimated using the Black-Scholes option pricing model using the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 1.3%; and, an expected life of two years from the issue date.

In addition, 2,100,000 compensation options were issued to the underwriters that entitle the holders to acquire the same number of subscription receipts at a price of C\$1.00 for a period of two years following the release of the financing proceeds. The grant date fair value of the compensation options was estimated using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 1.3%; and, an expected average life of two years. An amount of \$1,067,701 was recorded as cost of issue with respect to these warrants.

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13. WARRANTS (Continued)

The warrants were subject to an accelerated expiry whereby, the expiry of the warrants could be accelerated if the closing price of the underlying common shares listed on the Toronto Stock Exchange ("TSX") was greater than C\$2.00 for 10 or more consecutive trading days, at which time the Company may give notice to the warrant holders that the warrants will expire on the 30th day following receipt of the notice. In January 2010, Crocodile Gold's share price did trade in excess of C\$2.00 for a period of 10 consecutive days and on January 18, 2010, the Company exercised its right to accelerate the expiry date of these warrants. The 1,050,000 common share purchase warrants underlying of the 2,100,000 compensation options provided to the underwriters on the October 9, 2009 private placement were also subject to the accelerated expiry date. Warrants for the issuance of 18,529,988 common shares were exercised at C\$1.50 per warrant along with the 2,100,000 compensation options at C\$1.00, resulting in proceeds of C\$29,894,982 (\$28,531,558) on the issuance of 20,629,988 common shares.

- (d) As part of the December 18, 2009 prospectus financing, 1,331,700 compensation options were issued to the underwriters that entitle the holder to acquire the same number of subscription receipts at a price of C\$1.30 for a period of two years. The fair value of the compensation options was estimated using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 1.0%; and an expected average life of two years. An amount of \$848,053 was recorded as a cost of issue with respect to these warrants.
- (e) In October 2009, the Company signed a \$25 million senior secured credit facility. Additional details are provided in Note 11, "Standby Credit Facility". The Company paid a commitment fee of 4,000,000 common share purchase warrants ("Standby Credit Facility Warrant"). Each Standby Credit Facility Warrant is exercisable into one common share of the Company at a price of C\$1.50 for a period of three years following the date of issuance and had an estimated grant date fair value of \$2,310,240. The fair value of the 4,000,000 warrants was estimated using the Black-Scholes option pricing model using the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 2.1%; and, an expected life of three years.
- (f) The Company acquired 3,823,410 common share purchase warrants in the transaction with Franc-Or (Note 3). The common share purchase warrants had an average exercise price of C\$0.97. Common share purchase warrants representing 3,341,268 common shares were subject to accelerated expiry. The terms of the Franc-Or warrants provided that the expiry of the warrants may be accelerated if, at any time following the one year anniversary of the date of the warrant certificates, the closing price of the underlying common shares listed on the TSX was greater than C\$1.134 (on a post-Consolidation basis) for 20 or more consecutive trading days, at which time the Company could give notice to the warrant holders that the warrants would expire on the 20th day following receipt of the notice. Crocodile Gold's share price did trade in excess of C\$1.134 for 20 or more consecutive days and on January 18, 2010, the Company exercised its right to accelerate the expiry date of these warrants. A total of 3,341,268 Franc-Or warrants were exercised at C\$0.756 per warrant resulting in proceeds of C\$2,525,999 (\$2,407,782).
- (g) As part of the June 16, 2010 prospectus financing, 930,500 compensation options were issued to the underwriters that entitle the holder to acquire the same number of common shares at a price of C\$1.30 for a period of two years. The fair value of the compensation options was estimated using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 1.8%; and an expected average life of two years. An amount of \$627,214 was recorded as a cost of issue with respect to these warrants.

Summary of warrants outstanding at December 31, 2010:

Number of warrants	Exercise price	Grant date fair value of warrants	Date of expiry
	C\$		
10,000,000	\$1.00	\$2,618,962	November 6, 2012
6,728,501	\$1.00	1,679,988	June 15, 2012
1,265,115	\$1.30	818,963	December 18, 2011
930,500	\$1.30	627,214	June 15, 2012
4,000,000	\$1.50	2,310,240	October 16, 2012
22,924,116	\$1.12	\$8,055,367	

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14. CONTRIBUTED SURPLUS

Change in contributed surplus during the years ended December 31, 2010 and 2009:

Balance, December 31, 2008	\$	-
Stock-based compensation using the fair value method (Note 15) *		
Directors, officers or employees		1,586,493
Consultants		575,563
Acquired on transaction with Franc-Or		514,393
Stock options exercised		(52,243)
Balance, December 31, 2009	\$	2,624,206
Stock-based compensation using the fair value method (Note 15) *		
Directors, officers or employees		3,516,669
Consultants		1,241,214
Stock options exercised		(2,300,867)
Expiry of common share purchase warrants		92,840
Balance, December 31, 2010	\$	5,174,062

* A portion of stock-based compensation expense has been included with operating expenses on the consolidated statement of loss and comprehensive loss and a portion has been capitalized to mining interests.

15. STOCK-BASED COMPENSATION

The Company has adopted a stock option plan (the "Plan"), to be administered by the Directors of the Company. Under the Plan, the Company may grant options to directors, officers, employees and consultants to purchase shares of the Company. The Plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding capital. The plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases. Options granted under the Plan will be for a term not to exceed five years. The plan provides that it is solely within the discretion of the Board to determine who should receive stock options, in what amounts, and determine vesting terms. The exercise price for any stock option shall not be lower than the market price of the underlying common shares at the time of grant.

Summary of stock option activity:

	Number of options	Weighted average exercise price (C\$)
Balance, December 31, 2008	-	\$ -
Granted	11,160,000	0.74
Issued on transaction with Franc-Or (Note 3)	846,027	0.94
Exercised	(129,444)	(0.30)
Forfeited	(70,000)	(0.70)
Balance, December 31, 2009	11,806,583	\$ 0.76
Granted	6,700,000	1.46
Exercised	(4,446,492)	(0.72)
Forfeited	(1,063,941)	(0.99)
Balance, December 31, 2010	12,996,150	\$ 1.12

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15. STOCK-BASED COMPENSATION (Continued)

The following table summarizes information about stock options outstanding and exercisable under the Plan as at December 31, 2010:

Exercise Price C\$	Outstanding and exercisable		Grant Date Estimated Fair Value of Options	Expiry Date
	Number of Options Outstanding	Number of Options Exercisable		
\$0.20	3,170,000	3,170,000	\$369,079	March 10, 2014
\$0.38	127,777	127,777	108,298	June 3, 2014
\$0.70	67,500	47,500	30,477	July 10, 2014
\$0.70	18,750	-	9,119	July 27, 2014
\$0.82	34,920	34,920	23,754	August 11, 2013
\$1.09	250,000	31,250	197,163	September 8, 2015
\$1.15	80,000	20,000	65,236	August 26, 2015
\$1.19	2,342,125	1,261,790	1,992,859	November 12, 2014
\$1.33	40,000	10,000	37,844	May 21, 2015
\$1.39	100,000	-	66,342	December 1, 2015
\$1.43	150,000	93,750	151,917	December 8, 2014
\$1.43	5,125,000	640,625	3,461,739	November 23, 2015
\$1.58	60,317	60,317	22,867	August 7, 2012
\$1.59	100,000	37,500	118,521	April 30, 2015
\$1.64	500,000	187,500	606,316	April 19, 2015
\$1.75	100,000	50,000	129,177	March 29, 2015
\$1.89	154,761	154,761	50,037	June 30, 2011
\$1.91	250,000	156,250	345,275	December 29, 2014
\$1.95	75,000	37,500	106,092	January 4, 2015
\$2.00	200,000	100,000	285,620	February 23, 2015
\$2.24	50,000	18,750	81,664	January 11, 2015
\$1.12	12,996,150	6,240,190	\$8,259,396	

During the year ended December 31, 2010, 6,700,000 (2009 – 11,160,000) stock options were granted to directors, officers, employees and consultants of the Company. These options had a grant date estimated fair value of \$5,209,750 (2009 - \$5,758,067) and are scheduled to vest and be expensed over a 2-year period from grant date with 1/8th of the grant vesting every three months. The options expire five years from the date of issue. The fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year ended December 31, 2010	Year ended December 31, 2009
Expected dividend yield	0%	0%
Expected volatility	100%	100%
Risk-free interest rate	2.2%	2.1%
Expected life	3 years	5 years
Weighted average grant date fair value	\$0.78	\$0.52

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16. INCOME TAXES

a) Provision for income taxes

The major items causing the Company's income tax expense to differ from the Canadian combined federal and provincial statutory rate of 31% (December 31, 2009 - 33%) were:

	2010	2009
Loss before income taxes	\$ (19,836,004)	\$ (18,061,083)
Expected income tax recovery at statutory rates	(6,149,161)	(5,960,157)
Adjustments resulting from:		
Stock-based compensation	1,188,042	714,002
Financing costs	(1,303,864)	(1,209,358)
Transaction with Franc-Or	-	(835,080)
Gain on foreign exchange derivative	(18,019)	(207,423)
Purchase of mining assets	-	(10,140,355)
Change in future tax rates	457,914	533,411
Foreign exchange on future tax balances	(1,896,436)	(944,199)
Other	345,955	431,040
Change in valuation allowance	7,375,569	17,618,119
Future income tax recovery	\$ -	\$ -

b) Future income tax balances

The tax effect of temporary differences that give rise to future income tax assets and liabilities in Canada at December 31, 2010 and December 31, 2009 are as follows:

	2010	2009
Future income tax assets (liabilities)		
Non-capital losses	\$ 35,576,604	\$ 11,493,410
Net capital losses	-	2,358,217
Mining properties	(13,395,802)	2,769,445
Financing costs	2,860,363	973,217
Other	(47,477)	23,830
Valuation allowance	(24,993,688)	(17,618,119)
	\$ -	\$ -

c) The Company has approximately \$11,763,000 of Canadian non-capital operating losses and \$12,318,000 of Australian non-capital operating losses as at December 31, 2010 which under certain circumstances can be used to reduce the taxable income of future years. The Canadian non-operating losses have expiry dates between 2014 and 2030 and the Australian non-capital operating losses have no expiry date.

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17. SUPPLEMENTAL INFORMATION ON THE CONSOLIDATED STATEMENT OF CASH FLOWS

Supplemental information on the consolidated statement of cash flows for the years ended December 31, 2010 and 2009 is as follows:

	2010	2009
Changes in accounts payables and accrued liabilities relating to:		
Mining interests	\$ (662,927)	\$ 4,187,998
Deferred transaction costs	\$ -	\$ 31,730
Share issue costs	\$ 450,273	\$ 374,425
Acquisition of Franc-Or	\$ (166,387)	\$ 199,540
Accretion on reclamation liability charged to mining interests	\$ 381,358	\$ 306,826
Change in depreciation in inventory	\$ 151,126	\$ 515,066
Depreciation of assets deferred to mining interests	\$ 5,344,500	\$ 180,637
Stock-based compensation charged to mining interests	\$ 145,070	\$ 73,192
Stock-based compensation charged to operating expense	\$ 371,518	\$ -
Equipment acquired under capital lease	\$ -	\$ 208,436
Warrants granted related to debt facility	\$ -	\$ 2,310,240
Warrants granted as a cost of issue	\$ 627,214	\$ 1,915,754
Value of embedded derivative charged to mining interest	\$ -	\$ 717,529
Commons shares issued for mining interests	\$ -	\$ 1,001,770
Interest expense charged to mining interests	\$ 312,907	\$ 596,364
Discount on deferred GBS Gold Australia payments credited to mining interest	\$ -	\$ 868,029
Inventories acquired on purchase of GBS Gold Australia assets	\$ -	\$ 900,509
Common shares, options and warrants issued on the acquisition of Franc-Or	\$ -	\$ 13,444,168
Income taxes paid	\$ -	\$ -

18. SEGMENTED INFORMATION

The Company manages its assets by geographic location. The reportable operating segments are summarized in the tables below:

	December 31, 2010			
	Revenues	Net loss	Mining interests	Total Assets
Canada ⁽¹⁾	\$ -	\$ (8,094,485)	\$ -	\$ 7,653,925
Australia	73,351,420	(11,609,564)	145,256,634	187,549,731
Peru	-	(131,955)	2,010,859	2,014,730
	\$ 73,351,420	\$ (19,836,004)	\$ 147,267,493	\$ 197,218,386

	December 31, 2009			
	Revenues	Net loss	Mining interests	Total Assets
Canada ⁽¹⁾	\$ -	\$ (3,707,533)	\$ -	\$ 17,634,696
Australia	-	(2,068,336)	63,120,354	97,607,797
Peru	-	(12,285,214)	1,906,396	1,914,468
	\$ -	\$ (18,061,083)	\$ 65,026,750	\$ 117,156,961

⁽¹⁾ Canada includes corporate balances and intercompany eliminations.

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19. CAPITAL MANAGEMENT

The capital of the Company consists of common shares, warrants and options.

The Company manages and adjusts its capital structure based on available funds in order to support the acquisition, exploration and development of mining properties. 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. In order to maintain or adjust its capital structure, the Company may issue new shares, seek debt financing, or acquire or dispose of assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company is not subject to any externally imposed capital requirements.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes in the risks, objectives, policies and procedures in 2009 and 2010.

As at December 31, 2010, the capital structure of the Company consists of shareholders' equity totaling \$174,855,125 (December 31, 2009 - \$87,110,482).

20. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents, restricted cash, financial deposits and trade and other amounts receivable. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents consist of cash held in financial institutions from which management believes the risk of loss to be remote. At December 31, 2010, there are no significant trade receivables. Financial instruments included in amounts receivable consist primarily of goods and services tax due from the Federal Governments of Australia and Canada. Consequently, credit risk is considered low and no allowance for doubtful debts has been recorded at the balance sheet date. As at December 31, 2010, restricted cash was on deposit with the Westpac Banking Corporation, an Australian bank, as collateral on bank guarantees outstanding totaling A\$12,236,405 (\$12,524,292) (Note 4). Management believes that the credit risk with respect to these financial instruments is low.

Liquidity risk

As at December 31, 2010, the Company had net working capital of \$20,380,926, which included cash and cash equivalents of \$22,782,593, amounts receivable of \$2,229,773, restricted cash of \$50,271, prepaid expenses of \$1,301,092 and inventories of \$8,807,187, partially offset by current liabilities of \$14,789,990. In addition to operating expenses, expenditures over the next twelve month period include expenditures on exploration and various capital projects.

Current liabilities, comprised mainly of trade payables and accrued liabilities of \$13,985,174, mainly originate from expenses and the purchase of assets for ongoing operations, property, plant and equipment, and exploration. To monitor existing financial assets and liabilities as well as to enable effective controlling of future risks, the Company monitors the expected settlement of financial assets and liabilities on an ongoing basis. There are no significant payables that are outstanding past their due dates.

The Administrators of GBS Gold Australia, on behalf of its creditors, held security over the assets being purchased by the Company. Upon the payment of the second and final deferred payment in June 2010, as outlined in the ASA, the security over the assets was released. A guarantee on the deferred payments had been provided to the Administrators of the GBS Gold Australia assets on behalf of the Company by Forbes & Manhattan. A director of the Company is an officer and director of Forbes & Manhattan.

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20. FINANCIAL RISK FACTORS (Continued)

Market risk

(a) Foreign currency risk

As of January 1, 2010, the functional currency of the Company's Australian operations became the Australian dollar. The functional currency of the Canadian operations is the Canadian dollar. The initial purchase of the mining assets was in Australian dollars and the development and operation of the assets will largely be funded with Australian dollars. However, gold is priced on international markets in US dollars, the Company's reporting currency. At December 31, 2010, the Australian dollar was worth \$1.0235 US dollars, compared to \$0.8978 at December 31, 2009. During the year ended December 31, 2010, the average exchange rate of the Australian dollar against the US dollar was \$0.9192 (2009 – \$0.7927).

To protect against a strengthening Australian dollar vis-à-vis the United States dollar, the Company holds a significant portion of its cash in Australian dollars. The Company has also entered into currency forward contracts to help manage this foreign exchange risk; however, at December 31, 2010, the Company had no currency forward contracts outstanding. During the year ended December 31, 2010, the Company entered into contracts to sell approximately US\$26.5 million and purchase Australian dollars at an average rate of 1.1493. The Company realized a gain of \$1,363,578 on the settlement of these currency forward contracts. These contracts were entered into to normalize operating expenses incurred by the Company's foreign operations as expressed in US dollar terms. Management expects to continue to use currency derivatives to help manage its foreign exchange risk. The Company may hedge up to 50% and 30% of its Australian dollar expenditures over the next three months and subsequent four to twelve months, respectively. This may be done both through holding Australian dollars and the use of currency derivatives.

A 10% change in the average value of the Australian dollar against the US dollar with all other variables held constant would have changed the net loss by \$1,156,000, or \$0.01 per share, during the year ended December 31, 2010.

The Company's cash and cash equivalents were held in the following currencies as at December 31, 2010 and 2009:

	2010	2009
US dollars	\$ 737	\$ 1,669
Australian dollars	\$ 17,782,799	\$ 10,501,150
Canadian dollars	\$ 4,999,057	\$ 14,931,312

The restricted cash is all held in Australian dollars.

(b) Price risk

The Company is exposed to price risk with respect to commodity prices, specifically the price of gold, but there is also price risk arising from the use of petroleum products. Commodity prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for commodities, the level of interest rates, the rate of inflation, investment decisions by large holders of commodities including governmental reserves and stability of exchange rates can all cause significant fluctuations in commodities prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

During the year ended December 31, 2010, the Company was in commercial production beginning June 1, 2010. During this seven-month period the average realized gold price was \$1,284 per ounce. A 10% decrease in the gold price realized by the Company during this period would have increased the net loss by \$7,318,000, or \$0.04 per share.

(c) Interest rate risk

The Company's exposure to risks of changes in market interest rates relates primarily to its cash balances. The Company constantly analyses its interest rate exposure, giving consideration to potential renewals of existing positions, alternative financial positions and the mix of fixed and variable interest rates. The Company has cash balances as discussed above and no interest bearing long-term debt.

The income earned on these bank accounts is subject to the movement in interest rates. Assuming the \$22,782,593 held in cash and equivalents at December 31, 2010 had a +/- 1% change in interest rates, this would have an effect on loss before income taxes of approximately \$228,000.

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20. FINANCIAL RISK FACTORS (Continued)

Fair value of financial instruments

The Company has designated its cash equivalents and restricted cash as held-for-trading, measured at fair value. Amounts receivable and financial deposits are classified as loans and receivables, which are measured at amortized cost. Accounts payable and capital lease obligations are classified as other financial liabilities, which are measured at amortized cost.

As at December 31, 2010, the carrying and fair value amounts of the Company's financial instruments are approximately the same due to the limited term of these instruments.

CICA Section 3862, *Financial Instruments – Disclosures* ("Section 3862"), requires expanded disclosure about fair value measurements. The three levels of the fair value hierarchy under Section 3862 are as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table illustrates the classification of the Company's financial instruments within the fair-value hierarchy as at December 31, 2010:

	Total	Level 1	Level 2	Level 3
Financial Assets				
Cash equivalents	\$ 22,782,593	\$ 22,782,593	\$ -	\$ -
Restricted cash	12,723,487	-	12,723,487	-
	\$ 35,506,080	\$ 22,782,593	\$ 12,723,487	\$ -

The following table illustrates the classification of the Company's financial instruments within the fair-value hierarchy as at December 31, 2009:

	Total	Level 1	Level 2	Level 3
Financial Assets				
Cash	\$ 17,362,031	\$ 17,362,031	\$ -	\$ -
Cash equivalents	8,072,100	8,072,100	-	-
Restricted cash	47,660	47,660	-	-
Reclamation and other deposits	9,997,211	9,997,211	-	-
Unrealized non-hedge derivative liability	(58,608)	-	(58,608)	-
	\$ 35,420,394	\$ 35,479,002	\$ (58,608)	\$ -

21. RELATED PARTY TRANSACTIONS

In July 2009, the Company signed a three-year service agreement with Forbes & Manhattan for consulting and advisory services. Details are provided in Note 22, "Commitments and Contingencies". In December 2009, as stipulated under the terms of the agreement, a payment of C\$800,000 (\$725,280) was made to Forbes & Manhattan following the completion of a prospectus financing. A payment of C\$550,000 (\$516,626) was made to Forbes & Manhattan following the completion of the June 2010 prospectus financing, with a further payment of C\$800,000 (\$804,343) due to Forbes & Manhattan following the completion of the prospectus financing in November 2010. The C\$800,000 owing at December 31, 2010 is unsecured, non-interest bearing, with no fixed term of repayment.

Forbes & Manhattan acted as Crocodile Gold's guarantor in the Heads of Agreement signed on March 26, 2009 with GBS Gold Australia and the subsequent ASA signed on June 19, 2009. Forbes & Manhattan received an aggregate of \$893,000 as compensation for providing these services.

During the year ended December 31, 2010, bonuses totaling \$451,000 were paid to directors, officers and consultants of Crocodile Gold. During the year ended December 31, 2009, bonuses totaling \$1,754,000 were paid to directors, officers and consultants of Crocodile Gold, including a \$952,000 payment to Forbes & Manhattan.

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21. RELATED PARTY TRANSACTIONS (Continued)

Forbes & Manhattan also participated in the private placement in March 2009 (Note 12 (b)) by subscribing for 4,925,000 common shares.

A director of the Company, Stan Bharti, is an officer and director of Forbes & Manhattan.

On July 21, 2009, the Company paid C\$100,000 and issued 2,000,000 Crocodile Gold common shares to acquire an 80% interest in the Mt. Bundy Gold Project (formerly known as Rustler's Roost Gold Project). The property was owned by Valere Mining Ltd. ("Valere"). Certain directors and officers of Crocodile Gold are also shareholders of Valere.

In September 2010, an officer and two directors of the Company exercised an aggregate of 1,225,000 stock options at a price of \$1.19 per option. Of the options exercised by one of the directors, 500,000 options had not yet vested. The board of directors, within the authority granted by the Company's stock option plan, accelerated the vesting of the unvested options to allow for their exercise.

The Company shares its premises with other corporations that have common directors and/or officers. The Company reimburses and recovers from the related corporations their proportional share of expenses. Included in accounts payable at December 31, 2010 was \$nil (December 31, 2009 - \$10,844) owing to and \$50,878 (December 31, 2009 - \$47,329) owing from related corporations. Such amounts are unsecured, non-interest bearing, with no fixed terms of repayment (see Note 12 (b)).

All of the related party transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

22. COMMITMENTS AND CONTINGENCIES

(a) Agreement with Forbes & Manhattan

In July 2009, the Company signed a three-year service agreement with Forbes & Manhattan for consulting and advisory services. Payments to Forbes & Manhattan include a general fee of C\$25,000 per month, or C\$300,000 annually, success fees on equity or debt financings and bonuses on transactions completed by the Company. A "transaction" is defined as any merger, amalgamation, plan of arrangement, reorganization, business combination, take-over bid, purchase or similar transaction. As well, any strategic asset acquisition, pursuant to which the assets and business of the Company are combined with another corporation or the Company acquires more than 50% of another corporation and the Company is the continuing entity.

The Company may also, from time to time, make discretionary payments in such amounts and in such form as the Board considers appropriate in consideration for value provided by Forbes & Manhattan to the Company.

The success fee on financings is calculated on a graduated basis, with a fee of C\$300,000 payable on financings in the amount of C\$15 million or less, C\$550,000 on financings between C\$15 million and C\$25 million, C\$800,000 on financings between C\$25 million and C\$50 million, C\$1,050,000 on financings between C\$50 million and C\$100 million and a maximum fee of C\$1,300,000 on financings of greater than C\$100 million.

The bonus to be paid on the completion of a transaction is also dependent on the value of the transaction and is calculated as follows:

- transactions with a value of C\$100 million or lower - a bonus equal to 1% of the transaction is payable;
- transactions with a value above C\$100 million, but lower than C\$200 million - a bonus equal to 0.75% of the transaction is payable;
- transactions with a value above C\$200 million, but lower than C\$500 million - a bonus equal to 0.50% of the transaction is payable; and,
- transactions above C\$500 million - a bonus equal to 0.25% of the transaction is payable.

Success fees and transaction fees may be paid in shares of the Company at current market value or in cash, at the option of the Company, subject to regulatory approval. If the Company pays in shares, Forbes & Manhattan will not sell or enter into any agreement to sell the shares so issued for a period of six months from issuance. In addition, the success fees payable on equity or debt financings would no longer be payable if the Company has a market capitalization of C\$500 million or more. Any such restriction shall cease to apply in the event of a change of control. Notwithstanding the foregoing, a fee shall only be paid by the Company to Forbes & Manhattan for a transaction if the transaction does not constitute a change of control.

In addition, in the event that there is a change of control of the Company, either party may terminate this appointment within one year from the date of such change in control. In the event of making such an election, a lump sum termination payment of approximately \$3,871,000 to Forbes & Manhattan equivalent to 36 months in general fees plus an amount that is equivalent to all bonuses paid to Forbes & Manhattan in the 36 months prior to the change in control shall be paid.

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22. COMMITMENTS AND CONTINGENCIES (Continued)

The success fee, transaction bonus and change of control payments have only been applicable for events occurring after November 6, 2009, the date the Company's common shares commenced trading on the TSX. In December 2009, as stipulated by terms of the service agreement, a payment of C\$800,000 (\$725,280) was made to Forbes & Manhattan following the completion of a prospectus financing. A payment of C\$550,000 (\$516,626) was made to Forbes & Manhattan following the completion of the June 2010 prospectus financing. A further payment of C\$800,000 (\$804,343) is due to Forbes & Manhattan following the completion of the prospectus financing in November 2010 and is recorded in accounts payable and accrued liabilities at December 31, 2010.

A director of the Company, Stan Bharti, is an officer and director of Forbes & Manhattan.

(b) Native title claims

A number of native title claims have been applied for under the Native Titles Act 1993 (Cth) ("NTA") over areas of the Northern Territory of Australia in which the Company has an interest. The National Native Title Tribunal has registered some of these claims as the first step in the procedures established under the NTA to enable determination, by the Federal Court of Australia, of whether native title exists. Although the final effect of these applications is uncertain, they currently do not have a significant effect on the activities of the Company.

(c) Contingent contractual royalty obligations

The Company has the following contingent contractual obligations with respect to royalties:

- (i) a vendor royalty of A\$20 per ounce of gold produced from the Brocks Creek underground mine. During the year ended December 31, 2010, the Company recorded royalty expense of \$393,534, of which \$150,185 was capitalized as pre-commercial production and the balance expensed to the consolidated statement of loss and comprehensive loss.
- (ii) a vendor royalty of 1% of gold produced from certain tenements in the Brocks Creek area. The royalty becomes payable only after recovery of all operating and capital costs involved with the post-1995 development of the Brocks Creek tenements, and \$nil or minimal royalty is currently expected to be paid.
- (iii) a vendor royalty of A\$4 per ounce of gold produced from the Pine Creek tenements, payable to a privately owned company.
- (iv) a 1% ad valorem royalty payable to a subsidiary of Harmony Gold Mining Company Limited for any future gold production above 250,000 ounces derived from the Maud Creek Gold Project.
- (v) a 1% royalty payable on gold produced from certain tenements within the Tom's Gully Gold Project.
- (vi) royalties payable to various vendors of tenements located outside the currently anticipated mining areas.

The Company has contingent contractual obligations with respect to the Maud Creek Gold Project. A payment of A\$2,000,000 would be due upon a decision to proceed with development of the Maud Creek Gold Project, in addition to the production royalty described above.

(d) Lease obligations

The Company is committed to minimum amounts under long-term capital lease agreements for plant and equipment. As of December 31, 2010, minimum commitments remaining under these leases were as follows:

Year	Minimum lease commitments
2011	\$ 41,679
2012	17,365
Total	\$ 59,044

In 2009, the Company leased an office for two years with an option to extend the lease with annual rent increases. The Company also leases equipment for fuel storage and management. Minimum commitments remaining under these leases were as follows:

Year	Minimum lease commitments
2011	\$ 102,587
Total	\$ 102,587

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22. COMMITMENTS AND CONTINGENCIES (Continued)

(e) Management contracts

The Company is party to certain management contracts. These contracts require that additional payments of approximately \$3,905,000 be made upon the occurrence of a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements. Minimum commitments remaining under these contracts were approximately \$918,000 all due within one year.

(f) Tenement obligations

The Company intends to carry out expenditures on each project to meet Department of Industry and Resources commitments. These obligations are subject to amendment upon expiry of the exploration leases or when application for a mining licence is made. In order to maintain current rights of tenure to exploration and mining tenements, the Company is required to make lease rental payments and to meet minimum expenditure requirements that at December 31, 2010 are estimated to be \$1,600,000. These obligations are not provided for in the consolidated financial statements. The Company also has an obligation as part of its agreement with RBS Sempra Commodities/JP Morgan to spend \$2 million on exploration for base metals at Burnside, Iron Blow/Mt Bonnie by the end of 2012.

(g) Northern Territory Profits Royalty/Tax

All of the Company's tenements within the Northern Territory are subject to a Northern Territory Government profits royalty/tax. The current tax rate is 20% of the Net Value of mine production, where the Net Value equals the gross realization from the relevant production unit less the operating costs of the production unit for the year, a capital allowance on eligible capital assets expenditure, eligible exploration expenditure and additional deductions as approved by the relevant Northern Territory Government Minister. In May 2010, the Northern Territory Government introduced legislation to increase the mineral royalty rate to the current rate of 20%, effective July 1, 2010. Previously, the mineral royalty rate was 18%.

(h) Stamp duty dispute on transaction with Franc-Or Resources Corporation

The Northern Territory of Australia levies a stamp duty on various instruments and transactions. The stamp duty is levied at a rate of approximately 5% on the dutiable value of the transaction. On the purchase of the GBS assets, the Company paid stamp duty of A\$2,264,000 (\$1,818,000). In January 2010, the Territory Revenue Office ("TRO") of the Northern Territory notified the Company that it was the position of the TRO that stamp duty was payable on the fair value of the Company's dutiable Australian property on the date of the Franc-Or transaction, November 3, 2009. The Company believes that the transaction with Franc-Or did not trigger a stamp duty liability and is contesting the TRO decision. In February 2010, the Company paid A\$2,058,334 (\$2,106,761) to the TRO, being a reasonable estimate of the stamp duty arising from the Franc-Or transaction if the TRO's position eventually prevails. Despite the payment, which is recorded as a financial deposit, the Company's position remains that the Franc-Or transaction did not trigger a stamp duty liability and is pursuing its options to recover the amount paid; however, the eventual outcome of this dispute is unknown. Also, while the Company believes that the amount paid is based on a reasonable estimate of the value of the assets subject to stamp duty liability if the TRO position is upheld, the final amount due could be higher and would be subject to interest and possible penalties.

(i) Environmental bonds

As at December 31, 2010, the Company had funds placed on deposit as collateral for bank guarantees issued to the Northern Territory Government. The bank guarantees, totalling \$11,377,941, are security under environmental bond requirements in addition to environmental security bonds of \$148,924. A further \$864,929 is scheduled to be deposited over the next 12 months.

(j) Environmental contingencies

The Company's mining and exploration activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

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22. COMMITMENTS AND CONTINGENCIES (Continued)**(k) Changes to the proposed Resource Super Profit Tax**

On May 2, 2010, the Australian government announced the proposed introduction of a 40% resource rent tax that was to apply to resource companies earning "super profits" from the exploitation of non-renewable resources. The proposed Resource Super Profits Tax ("RSPT") would come into effect on July 1, 2012 and would apply to all existing projects and future projects. Following a consultation process with the mining industry, it was agreed that the proposed RSPT would be replaced with a Mineral Resource Rent Tax which will only apply to coal and iron ore. Pursuant to the revised proposal, all other mining companies, including gold, copper, nickel and other base metals, would not be subject to the tax. The new proposed tax has not yet been passed into law.

23. SUBSEQUENT EVENT**March 2011 Bought Deal Financing and Prospectus**

On March 17, 2011, the Company filed a final prospectus in connection with an agreement between the Company and a syndicate of underwriters pursuant to which the underwriters agreed to purchase, on a bought deal basis, 81,000,000 units of the Company, at a price of C\$1.05 (\$1.06) per unit for aggregate gross proceeds to Crocodile Gold of C\$85,050,000 (\$86,037,000). Each unit consists of one common share of the Company and one-half of a common share purchase warrant. Each whole common share purchase warrant entitles the holder thereof to acquire one common share of the Company at an exercise price of C\$2.25 (\$2.28) per warrant for a period of five years from the closing date. The Company agreed to grant the underwriters an over-allotment option to purchase up to an additional 12,150,000 common shares and/or an additional 6,075,000 common share purchase warrants, or a combination thereof, exercisable for a period of 30 days following the closing date at an exercise price equal to the issue price as allocated and described in the final prospectus to cover over-allotments. If this option is exercised in full, an additional C\$12,757,500 (\$12,905,000) will be raised bringing the aggregate gross proceeds to C\$97,807,500 (\$98,942,000). The offering closed on March 24, 2011.