

**CROCODILE GOLD CORP.**  
**Management's Discussion and Analysis**  
**For the year ended December 31, 2010**

This Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of operations of Crocodile Gold Corp. together with its wholly owned subsidiaries (collectively, "Crocodile Gold", or the "Company") for the year ended December 31, 2010. The consolidated annual financial statements and related notes of Crocodile Gold have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information, including the Amended Annual Information Form dated March 28, 2011 and press releases, has been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and is available online under the Crocodile Gold profile at [www.sedar.com](http://www.sedar.com).

Crocodile Gold is the continuing combined entity following the 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"). Following completion of the Transaction, the Crocodile Gold board and management 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. The Transaction was accounted for as a purchase of assets with Crocodile Gold Inc. as the acquirer and Franc-Or as the acquired. Additional details are provided below under the section entitled "Transaction with Franc-Or Resources Corporation".

This MD&A reports on the Company's activities through March 28, 2011. All references to "\$" are to United States dollars. References in this document to "C\$" are to Canadian dollars and references to "A\$" are to Australian dollars. 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

This document contains forward-looking statements and should be read in conjunction with the risk factors described in "Risk Factors" and the "Cautionary Statement on Forward-Looking Information" at the end of this MD&A.

The technical contents of this MD&A have been reviewed by David Keough, MAusIMM of Crocodile Gold Australia Operations, a "qualified person" as such term is defined in National Instrument 43-101.

**Overview**

Crocodile Gold is a Canadian company engaged in the acquisition, exploration, development and operation of mining properties. The Company's primary focus is the Burnside, Union Reef's and Pine Creek Projects in the Northern Territory of Australia, which were acquired in 2009. These mining assets are held by Crocodile Gold Australia Pty Ltd, a wholly-owned subsidiary of Crocodile Gold. Additional details are provided below under the section entitled, "Purchase of Mining Assets from GBS Gold Australia Pty Ltd". The Company is producing gold from the Brock's Creek underground mine, the Howley open pit mine, the North Point open pit mine and, most recently, the Princess Louise open pit mine. Ore is currently processed at the 2.4 million tonne per year Union Reef's Mill, which was declared to be in commercial production on June 1, 2010. Prior to the declaration of commercial production, the Company was a development stage entity as defined by the Canadian Institute of Chartered Accountants' ("CICA") Accounting Guideline 11. Crocodile Gold has 3.4 million ounces of NI 43-101 compliant measured and indicated resources (52 million tonnes at an average grade of 2.0 g/t gold) and 2.1 million ounces of inferred resources (35 million tonnes at an average grade of 1.9 g/t gold).

The Company also holds rights to the exploration stage Mario Property in Peru.

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**Highlights**

Highlights for the year were:

- On June 1, 2010, with the Union Reef's mill having achieved commercial levels of throughput, grades and recoveries on a sustained basis, the Company declared commercial production had been achieved.
- During the year ended December 31, 2010, the Company recorded a net loss of \$19,836,004, or \$0.10 per share, and cash flow from operations of \$6,263,016. The net loss for the year included impairment charges of \$8,299,703 to the Brock's Creeks underground mine.
- During the seven months of production since commercial production was declared on June 1, 2010, a total of 1,250,000 tonnes of ore was processed at an average grade of 1.54 g/t and a recovery rate of 91.1% to produce 56,294 ounce of gold.
- Mill availability since the declaration of commercial production was 92%. Mill utilization during the fourth quarter of 2010 dropped to 88%, compared to 95% in the third quarter, as a result of heavier than normal rains experienced during late November and December.
- During the year ended December 31, 2010, the Company milled 1,856,180 tonnes of ore at an average head grade of 1.55 g/t and at a recovery rate of 88.4% to produce 81,793 ounces of gold.
- Mining commenced at the North Point open pit mine in April and the Princess Louise open pit mine in September. Mining continued at both mines until the beginning of the wet season in early December. Production is scheduled to recommence at both pits during the second quarter of 2011.
- During the year ended December 31, 2010, a total of 1,929,232 tonnes of ore at an average grade of 1.55 g/t with an estimated 96,141 contained ounces of gold was mined from the Howley, North Point and Princess Louise open pit mines and the Brock's Creek underground mine.
- Excavation at the new Cosmo underground mine began with the first blast on the portal occurring May 30, 2010 and total underground development through December 31, 2010 was 562 metres. A Commercial level of production is expected to be reached in the fourth quarter of 2011 with the first development ore mined in the second quarter.
- Development work on the Tom's Gully underground mine was discontinued during the third quarter with the decision to start operations being deferred.
- Completed 81,946 metres of exploration drilling at Brock's Creek, Howley, Cosmo, Princess Louise and Tom's Gully during the year ended December 31, 2010.
- In September 2010, Crocodile Gold was added to the S&P/TSX SmallCap Index.

**Purchase of Mining Assets from GBS Gold Australia Pty Ltd.**

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 TSX.

The assets were comprised of the Burnside, Maud Creek, Union Reef's, Pine Creek and Tom's Gully Projects in the Northern Territory of Australia. The assets are located 90 to 285 kilometres ("km") south of Darwin. GBS Gold Australia acquired the mining assets between 2005 and 2007 and was in production between early 2007 and the appointment of the Administrators in September 2008.

Prior to the suspension of operations and the appointment of the Administrators, GBS Gold Australia produced 90,745 ounces of gold during 2008, of which 88,889 ounces were produced at the Union Reef's operations and 1,856 ounces were produced as part of pre-production activities at the Tom's Gully operation.

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 A\$50,000,000 (\$40,145,000). 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.

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On June 19, 2009, the Asset Sale Agreement ("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 the final payment of A\$15,000,000 (A\$13,224,984) was made in June 2010. 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 the Company had fulfilled its obligations under the ASA and the security over the assets was released.

The ASA provided GBS Gold Australia the option to receive the deferred payments totalling A\$30,000,000 in Canadian dollars 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 a 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.

**Mining and Milling Activity**

Following the receipt of title to the mining licences and tenements on November 6, 2009, the Company commenced mining activities at the Howley open pit mine (formerly known as Chinese) and at the Brock's Creek underground mine. During the commencement of mining activity and the recommissioning of the Union Reef's mills, all operational activities and the related costs and revenue were treated as pre-commercial production and capitalized as development. On June 1, 2010, with the operations having achieved commercial levels of throughput, grades and recoveries on a sustained basis, the Company declared commercial production.

The Union Reef's mill is a 2.4 million tonne per year carbon-in-leach processing plant with two parallel circuits. The mill was originally commissioned in 1994 with the second circuit added in 1998. Production activity at the mill, using one of the circuits, commenced in December 2009. Crushing of ore from Howley and Brock's Creek began on December 3, 2009, with the commissioning of the first grinding mill and beginning on December 16, 2009 crushed ore was being fed to the mill. The first gold from gravity processing was poured on December 29, 2009. The second grinding mill was commissioned at the end of January 2010.

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On June 1, 2010, with the Union Reef's mill having achieved commercial levels of throughput, grades and recoveries on a sustained basis, the Company declared commercial production had been achieved. During the seven months between the declaration of commercial production and December 31, 2010, the Company milled 1,250,000 tonnes of ore at a head grade of 1.54 g/t and a recovery rate of 91.1% to produce 56,294 ounces of gold. The cash cost during this seven month period was \$1,109 per ounce on 56,990 ounces of gold sold (See "Non-GAAP Measures" below). The cash costs were higher than expected due to the processing of the higher cost pre-commercial production ounces in opening inventory at the commencement of commercial production and lower head grade. The mining of short life open pits at North Point and Princess Louise resulted in no mining costs being capitalized as development with all costs being treated as an expense. The Cosmo underground mine, which has a longer mine life, will be a major factor in reducing cash costs in the future.

Lower than expected production during the fourth quarter of 2010, due to heavier than usual monsoonal rains, has also had a negative impact on the Company's cash cost and cash flow from operations during 2010. In addition, the Australian dollar has strengthened since the beginning of 2010 and since June 1, 2010, the date commercial production was declared.

During the year ended December 31, 2010, Crocodile Gold milled 1,856,180 tonnes of ore at an average head grade of 1.55 g/t and a recovery rate of 88.4% to produce 81,793 ounces of gold.

Mill availability and throughput increased steadily to the declaration of commercial production. Mill availability during the first quarter, and prior to the declaration of commercial production in the second quarter, was impacted by start up issues and crusher difficulties. As a result of these disruptions, mill availability was approximately 66% during that five month period. Mill availability in the seven month period since the declaration of commercial production was 92%. Targeted mill availability is 95% which was reached during the third quarter of 2010. During the fourth quarter of 2010, mill utilization dropped to 88%, largely due to the lack of crushed ore stock due to the weather and crusher throughput issues with wet clay ore types.

At the beginning of the second quarter, due to the crushing difficulties experienced in the prior months, a contract crusher was brought in to the Howley open pit to help provide crushed ore to the mill. However, with the improved crusher performance at the Union Reef's mill, the contract was discontinued.

With mill availability reaching targeted rates during the first half of 2010, the focus at the Union Reef's mill during the second half of 2010 was on increasing recovery rates and throughput, and achieving cost reductions. The recovery rate during the third and fourth quarters of 2010 was 92.4% and 90.0%, respectively, up from 85.1% during the second quarter and 82.3% during the first quarter. The targeted recovery rate is 90% on mixed oxide and fresh ore, and 86% on 100% fresh ore. The decrease in the recovery rate between the third and fourth quarter was due to a higher percentage of fresh ore being crushed and milled along with difficulties experienced in the carbon-in-leach circuit. A partial mill reline on both mills was completed during the fourth quarter.

Steps taken to improve recovery rates included allowing for increased residence time, improvements to the gravity circuit process and a focus on ore blending to achieve desired grind size. During the fourth quarter, a liquid oxygen facility was installed and commissioned that is expected to improve the recovery rate in the carbon-in-leach circuit. In addition, a number of recovery initiatives are currently underway to increase the recovery on 100% fresh ore.

Ore milled during the year was sourced from the Howley, North Point and Princess Louise open pit mines and the Brock's Creek underground mine. During the year, 1,840,108 tonnes of ore was mined at the open pit mines at an average grade of 1.31 g/t, having an estimated 74,606 contained ounces of gold. Production from both Princess Louise and North Point in 2010 continued to the beginning of December when the seasonal rains made the pits inaccessible. Production is scheduled to recommence at both pits during the second quarter of 2011.

During 2010, 89,124 tonnes of ore was mined at the Brock's Creek underground mine at an average grade of 7.52 g/t, having an estimated 21,535 contained ounces of gold. It became apparent that the length and gold grade of the lodes was decreasing with depth, reducing the ounces per vertical metre. Mining is scheduled to end during the second quarter of 2011. An impairment charge of \$8,299,703 was recorded during the fourth quarter of 2010 against the Brock's Creek underground mine's assets.

During the year, the ore tonnes mined exceeded the tonnes milled as the Company was building stockpiles in advance of the wet season which begins in November/December and lasts through April. At December 31, 2010, the Company had 123,000 tonnes of ore in stockpiles at an average grade of 0.90 g/t for an estimated 3,581 contained ounces of gold.

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*Cosmo Underground Mine*

With the end of the wet season in May 2010, the dewatering of the Cosmo pit was discontinued due to permitting requirements. While a large quantity of water remained in the Cosmo pit, the water levels were sufficiently lowered by the dewatering program to allow for the start of the construction and development of the Cosmo Underground mine. During 2010, the surface installations, portal and 562 metres of underground development were completed. Development had initially progressed ahead of schedule, but slowed during September as increased flow rates of water associated with poorer ground conditions in an isolated fault were being encountered. Development continued; however, at a slower rate, with an increased focus on developing along the more competent rock units. The focus during the fourth quarter was on developing and installing the required underground infrastructure, including electrical and water reticulation.

Also during the fourth quarter, the contract for the development of the Cosmo underground mine was put out to tender. Following the completion of a highly competitive tender process, Leighton Contractors Resource Division was awarded a three year contract for the mining and development of the Cosmo underground mine in March 2011. The terms of the contract are consistent with the average mining costs detailed in the 2007 Cosmo underground feasibility study, which the Company is currently optimizing with its consultants. Development work at Cosmo by the incumbent contractor ended at the end of December 2010 and Leighton Contractors Resource Division mobilized to site and restarted development in mid March 2011. An interim ventilation upgrade, including fan purchase and low resistance ventilation tubing for the ramp, will be installed at Cosmo early in the second quarter of 2011 so that development can continue until a new ventilation raise is established in the third quarter.

Dewatering of the Cosmo pit will need to be completed prior to the production of ore from stopes in the Cosmo underground mine. During the fourth quarter, the Company began the process to complete the dewatering of the Cosmo pit. Most of the remaining water will be pumped to an abandoned open pit mine named Alligator, located 14 kilometres northeast of the Cosmo pit, via a pipeline the Company constructed for this purpose.

Pumping of the water was expected to be finalized before the end of the first quarter of 2011. However, together with the rest of Australia, the Company's operations have been impacted by abnormal rainfall. Since the beginning of the monsoonal season in October over 2,447 millimetres of rain fell to the end of February 2011, which is 95% higher than the normal long-term average of 1,250 millimetres of rain. Compounded by delays in the receipt of government permits to begin dewatering, this exceptionally high level of rain resulted in additional inflows of water into the Cosmo pit. As a result, the amount of water remaining in the Cosmo open pit has exceeded the capacity in the destination pits (primarily the Alligator Pit) and the Company will need to accelerate the building of a water treatment plant at an estimated cost of approximately \$3 million. The water treatment plant will be used in both the initial dewatering of the Cosmo open pit as well as for ongoing dewatering requirements. The total cost to dewater the Cosmo pit, including the addition of a water treatment plant, is expected to now be approximately \$11 million, an increase of \$5 million over the original estimate of \$6 million.

Crocodile Gold received the permits to dewater the Cosmo pit, and began dewatering, in late February 2011. The critical path of the Cosmo underground development is to reduce the level of water in the pit near a ventilation raise breakthrough in May 2011 so the permanent ventilation system can be established. The ventilation raise should be completed early in the third quarter of 2011.

Crocodile Gold has completed a review of the Cosmo underground design work and is currently working with its consultants through a number of optimizations to maximize overall production and recovery of the ore. With the contractor changeover, delays to dewater the Cosmo pit and establishing ventilation underground, the Company now anticipates that Cosmo will be into development ore later in the second quarter of 2011 and into production ore later in the third quarter of 2011. Factors affecting this timeline include development rates, establishment of ventilation, dewatering the open pit, definition of ore and geotechnical considerations.

*Tom's Gully Underground Mine*

Development on the Tom's Gully underground mine commenced in the first quarter of 2010 and, through August 2010, a total of 930 metres of capital development had been completed and approximately 20,000 tonnes had been mined and stockpiled on surface. Work had commenced on the refurbishment and recommissioning of the Tom's Gully mill with a stockpile of low grade ore already crushed in advance of the commissioning of the plant.

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Crocodile Gold began drilling at the Tom's Gully underground mine in August 2009 as part of an exploration program to provide added confidence in the resource model prior to commencing mining operations. During the third quarter of 2010, following a review of the exploration results to date, the development progress, current available ore stockpiles and the remaining capital requirements to restart Tom's Gully, the Company decided to defer the decision on reopening of Tom's Gully. The Tom's Gully mine was originally forecast to produce approximately 8,000 ounces of gold during the fourth quarter of 2010. By deferring the decision on commissioning of the Tom's Gully mine, more time will be provided to recalculate the reserves and resources, optimize the mine plan to allow for increased mine scheduling flexibility and improve geological definition (from increased underground development) that is expected to enable a higher gold production profile upfront if the mill is started. The Company is also reviewing geological information in the area to determine if there are other sources of ore which would assist in providing sustainable mill feed. Currently both short and long-term production forecasts do not include any assumptions of production from Tom's Gully.

In addition, the deferral of Tom's Gully has allowed the Company to focus its resources, both financial and management, on Crocodile Gold's priorities which include the continued development of existing production sources such as North Point, Princess Louise and Howley, while preparing Cosmo for production in 2011.

In December 2010, with the development of the Tom's Gully mine being deferred, approximately 8,700 tonnes of crushed ore was shipped to the Union Reef's mill and 5,400 tonnes were processed at an estimated grade of 1.50 g/t for total recovered ounces of approximately 250 ounces. The costs related to processing the Tom's Gully ore along with the associated gold sales revenue were capitalized as a pre-operating cost.

*Union Reef's and Pine Creek Areas*

In September 2010, the Company announced that it had identified deposits within the Union Reef's and Pine Creek areas as potential near term mining areas with the benefit of being adjacent to and within 15 kilometres of the Union Reef's mill. The Company is accelerating permitting and development activities on certain deposits within this area with the goal of starting production at Pine Creek in the latter half of 2011. Based on recent dialogue with Northern Territory government officials, the Company expects that permits for the mining of the International Pit at Pine Creek will be received in the second quarter of 2011. The close proximity of the deposits to the Union Reef's mill relative to the Burnside deposits (Howley, North Point, Princess Louise and Brock's Creek) where the Company's current production is being sourced has the benefit of lower haulage costs. Production from the Burnside deposits is hauled approximately 80 kilometres at a cost of approximately \$125 per ounce.

Crocodile Gold has initiated drilling at some assets in the Union Reef's area, targeting high grade underground targets in particular at the Crosscourse, Prospect Claim and Lady Alice deposits. Depending on the success of exploration and mining studies, there is potential for further underground or open pit production from this area.

Historical production in the Union Reef's area has yielded over 800,000 ounce of gold from 12 shallow open pit operations. In the Pine Creek area, over 750,000 ounces of gold has been produced from six shallow open pits and some limited underground production. Additional details have been provided in the Company's press releases dated September 8, 2010, October 14, 2010, February 15, 2011 and February 28, 2011.

*Cosmo/Howley Proposed Mill*

The Company has been studying the feasibility of building a new mill at the Cosmo/Howley area initially at a throughput rate of 1.5 million tonnes per year with expansion potential to 3.0 million tonnes per year. Although the study on the mill is completed, the Company is still studying the optimal period for beginning construction. With the potential of lower cost Union Reef's and Pine Creek production adjacent to the existing mill at Union Reef's, the decision on building a new mill will be deferred until later in 2011 or 2012.

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**Exploration Review**

On March 22, 2010, the Company announced it had expanded its previously announced exploration program and had budgeted a \$23 million program for 2010 that included 40,000 metres of diamond drilling and 90,000 metres of reverse circulation drilling. The long-term goal of the exploration program is to increase Crocodile Gold's resources to 10 million ounces of gold. More than 70% of the 2010 exploration budget was dedicated to exploring and updating resources at Cosmo and Howley. The Cosmo/Howley area covers a five kilometre mineralized system, which is part of a 25 kilometre mineralized trend with known resources along its entire length. Additional exploration targets for this period included Tom's Gully, Brock's Creek, Maud Creek and Iron Blow.

During the year ended December 31, 2010, the Company spent approximately \$13 million on exploration expenditures and completed 81,946 metres of drilling, including 15,804 metres of diamond drilling. Exploration and evaluation expenditures have been capitalized. In addition, during 2010, definition drilling totalling 70,668 metres was completed.

At the end of the second quarter of 2010, based on cash flow considerations and the extensive and wide spread positive drill results from the first half of 2010, the Company decided to reduce the amount of exploration drilling going forward to allow the drill results collected to be properly analysed and evaluated. This was to ensure that drilling activities over the balance of the exploration program were targeted with the aim of maximizing results. In addition, the focus on the Cosmo/Howley corridor was increased along with the transition from predominately extension drilling to infill drilling, especially with the use of shorter, less expensive holes from underground development at Cosmo. Underground diamond drilling commenced in mid-March 2011. As a result, the timeline for the current exploration program has extended beyond 2010. The Company's exploration personnel are also focussing on the very large historical geological database to not only guide current exploration activities, but to also identify new targets. In some cases it may be possible, with very little effort, to verify historical data and add additional resources from new deposits. The current focus is on ore sources near the Union Reef's mill at the Pine Creek and Union Reef's areas and ore sources near the Tom's Gully Plant.

Howley Project

The Cosmo/Howley corridor is one of the Company's highest priority exploration target area. The Howley open pit is located immediately north of the Cosmo pit with mineralization present for more than five kilometres to the north and the Howley Trend itself continuing for a further 20 kilometres.

The majority of previous drilling at Howley had extended less than 100 metres below surface and had focused on the west limb of the structure, which is the location of the majority of estimated resources. During 2010, the majority of drilling completed for Crocodile Gold was at Howley. The current drill program is testing the extent of mineralization in all directions, including at depth. Results to date have confirmed that mineralization is present in several key areas. These areas include:

1. mineralization at depth beneath existing resources;
2. mineralization in areas of no existing resources and minimal previous drilling;
3. higher grade mineralization existing on the east anticlinal limb;
4. further mineralization in the West Zone Area; and,
5. potential upgrade of mineralization within existing pit shells.

The West Zone Area of mineralization is estimated to be located up to 200 metres west of the main Howley mineralization and is in excess of 100 metres wide, but is not currently well defined. The purpose the 2010 exploration program was to better define this area and to investigate the possibility of increasing estimated mineral resources in order to justify enlarging the #2 Pit. Mineralization remains open to the south and at depth. The deepest hole in the program was only 150 metres below surface.

The program also identified an additional zone of near surface mineralization approximately 100 metres west of the West Zone Area. This suggests the mineralization remains open to the west and that the mineralized corridor could locally be in excess of 500 metres wide, compared with the previously measured 400 metres width.

The majority of past drilling targeted an area less than 100 metres below surface. The 2010 drilling demonstrated the continuity of mineralization to a vertical depth of more than 200 metres. Mineralization continues to remain open at depth.

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The two kilometre distance between the old Cosmo open pit and the Howley #2 Pit was not previously drill tested. A number of drill holes were completed on widely spaced (200 metre) sections in order to test for mineralization in this area.

The majority of historical exploration at Howley has focused on the west limb of the anticlinal structure. The east limb has previously received little attention. This target area is considered a high priority exploration area. In the area to the east of the Howley #4 pit, a number of significant historical high grade drill intersections have been obtained. In many cases the holes were incompletely sampled. In the 2010 program, high grade mineralization was intersected at a vertical depth of approximately 200 metres. This is the deepest intersection to date on the east limb, and is approximately 100 metres deeper than the previous deepest intersection in the area. It demonstrates the potential of this area to outline a high grade resource.

The results of the 2010 drilling indicate that the Howley mineralization is part of a larger gold system. Identified mineralization is within a corridor that is up to 500 metres wide, has a strike length of more than 3.5 kilometres and that remains open to the north, south, east, west and at depth.

*Cosmo Project*

During 2010, the Company commenced an infill and extension drill program at Cosmo to further define the existing mineralization and to expand the mineralization along strike and at depth. The Company announced diamond drill results from the Cosmo project in February, April, September and October of 2010. The drill results double the strike length of the existing mineralization and indicated the potential for resource growth at depth and locally to surface. Mineralization was intersected approximately 400 metres north of the current resource outline in the direction of the Howley Project. Mineralization was encountered at a vertical depth of 850 metres, the deepest intersection to date. Mineralization within the western lode section of the resource was encountered at a vertical depth of 675 metres, which is more than 300 metres below the base of the current resources. Along with extending the resource, there was also focus on increasing the confidence on existing resources through infill drilling.

The majority of the historical drilling at Cosmo focused on the eastern lodes and the current mineral resource model encompasses the eastern lodes down to a vertical depth of approximately 655 metres below surface. The current drill results will be used to upgrade the estimated mineral resource. The results will also be used to plan further exploration activities in 2011 on both the western and eastern lodes and newly found targets.

Crocodile Gold is currently developing the Cosmo underground mine with commercial production expected in the fourth quarter of 2011. Beginning in March 2011, ramp development allowed the Company to start drilling from underground at Cosmo with the advantage of lower cost drilling (shorter drill holes) compared to drilling from surface.

*Union Reef's and Pine Creek Area*

On October 14, 2010, the Company announced a resource increase at its Pine Creek deposits. The press release outlined an increase in indicated resource ounces from 69,600 ounces to 288,600 ounces. The increase was largely due to an upgrade of existing inferred mineral resources.

In February 2011, the Company announced that it had initiated a drill program at the Crosscourse and Prospect Claim open pit targets. The targets are adjacent to the Union Reef's mill and are identified extensions of mineralization of the historical open pits mined in the 1990's.

The Unions Reef's project area has been ranked by the Company as one of the highest priorities for growth for mineral reserves and resources and near term production. The high priority is the result of:

- 1) the fact that the project area is located immediately adjacent to the Union Reef's mill and therefore does not require the high truck haulage costs associated with the Burnside deposits;
- 2) most of the deposits in the project area are within approved mining leases (versus within an exploration licence), as a result the permitting process should be quicker;
- 3) historical production in the Union Reef's area yielding over 800,000 ounces of gold from 12 shallow open pit operations and the Company believes the potential exists for both higher grade underground targets and lower grade open pit targets; and,
- 4) the Company believes that significant exploration upside exists as past exploration in the area has been limited in depth with mainly only oxide material being drilled to any extent, except for the Crosscourse target.

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The Company's focus in this project area will be to re-optimize existing open pits, investigate potential extensions to existing open pits and new undeveloped potential underground deposits.

*Brock's Creek Underground Mine*

On May 12, 2010, the Company announced results from the diamond drilling completed at Brock's Creek. The aim of the diamond drill program at Brock's Creek was to increase the resource at depth and upgrade the confidence level of existing resources. The drilling intersected high grade mineralization approximately 100 metres down-dip from the existing resource. While the drilling at Brock's Creek during the year did provide additional ounces, the length and gold grade of the lodes was decreasing with depth, reducing the ounces per vertical metre. The remaining ounces will be mined out during the first half of 2011 and an impairment charge of \$8,299,703 was recorded during the fourth quarter of 2010 against the Brock's Creek underground mine's assets.

*Mt. Bundy Tenement Package*

In 2009, the Company acquired the Mt. Bundy tenements, which included the Rustler's Roost deposit. The Rustler's Roost deposit is located approximately 15 kilometres to the southwest of Crocodile Gold's Tom's Gully mine. The deposit was previously mined with a shallow open pit providing 4.71 million tonnes at 1.05 g/t gold of ore which was processed using a heap leach facility on site, with an overall gold recovery of around 70%. Mining was completed in the 1990's and no mining has taken place since this operation finished. From 2004 to 2006, a project feasibility study was completed, however at that time, as the average long term gold price used in the study was approximately \$450 per ounce, the project was deferred.

With the acquisition of the Mt. Bundy Tenements, and the close proximity to the Tom's Gully mill, the Company has been reviewing the combined tenement package for potential sources of ore for the mill.

Due to the lower grades, requirement for a feasibility study and the anticipation of significant capital expenditures, the Rustler's Roost and Tom's Gully deposits are not considered a material property; although it may become more important when the Company is producing significant cash flow.

*TOP Tenements*

During the second quarter of 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 Gold Australia assets. These tenements, representing approximately 750 km<sup>2</sup> of property, did not contain any ounces included in Crocodile Gold's indicated or inferred resources and the Company had no near-term plans to conduct any exploration on the properties. On acquisition of the GBS Gold Australia assets, the TOP tenements were allocated a value of \$289,636. With the decision not to exercise its option on the TOP tenements, the Company has written off the value assigned to these tenements as an impairment charge on the consolidated statement of loss and comprehensive loss.

**Transaction with Franc-Or Resources Corporation**

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.

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

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 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 TSX on the date of completion, November 3, 2009.

The purchase price was calculated as follows:

Common shares issued (10,172,711)	\$11,375,609
Fair value of stock options issued	514,392
Fair value of warrants assumed	1,554,167
Transaction costs	956,280
	\$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
	\$14,400,448

As outlined above, the purchase price was based on Franc-Or's share price as of the Transaction completion date, November 3, 2009. Crocodile Gold Inc. and Franc-Or signed the initial agreement to complete the Transaction on August 6, 2009. Between August 6, 2009 and November 3, 2009, Franc-Or's share price increased from C\$0.06 per share to C\$0.19 per share, an increase of 217%. As a result, the estimated fair value of the consideration provided as of November 3, 2009 was significantly higher than the estimate fair value based on Franc-Or's August 6, 2009 share price. 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 during the year ended December 31, 2009.

In January 2010, following the Company's transaction with Franc-Or, the Territory Revenue Office ("TRO") of the Northern Territory notified the Company that it is the position of the TRO that stamp duty is payable on the fair value of the Company's dutiable Australian property on the date of the Franc-Or transaction, November 3, 2009. Additional details are provided below under the section entitled, "Commitments and Contingencies".

**Equity Financings**

As of December 31, 2010, Crocodile Gold had 228,722,442 common shares outstanding, of which 187,395,430 were issued as part of, or relating to various equity financings since January 1, 2009, including 40,710,000 common shares that were issued as part of prospectus financings in June and November 2010. During the year ended December 31, 2010, a total of 22,941,268 previously issued common share purchase warrants and compensation options with acceleration provisions met the required condition for the Company to exercise this acceleration right. The Company gave notice to the warrant holders that the expiry date of the warrants was being accelerated, raising gross proceeds of \$30,939,340 on the issuance of 23,971,256 common shares. Details on the equity financings completed since January 1, 2009 are outlined below.

January 2009 Private Placement

In January 2009, the Company completed a private placement financing, issuing 10,000,000 common shares of the Company for gross proceeds of C\$80 (\$66) to the founders of the Company.

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March and May 2009 Private Placement Financings

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 C\$7,800,000 (\$6,094,920). Directors and officers of the Company subscribed for 875,000 shares for total gross proceeds of C\$175,000 (\$136,745). In addition, Forbes & Manhattan also participated in the private placement by subscribing for 4,925,000 common shares. In May 2009, 6,000,000 shares were issued at C\$0.20 per share for gross proceeds of C\$1,200,000 (\$1,094,760).

June 2009 Preferred Share Private Placement Financing

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. By their terms, the preferred shares automatically converted into common shares immediately prior to the effective time for the Transaction. Each whole common share purchase warrant is exercisable at C\$1.00 for three years from the listing date 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 preferred shares and C\$2,927,198 (\$2,618,962) to 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 totalling C\$9,335,601 (\$8,352,563), net of related share issued costs, was charged to shareholders' equity. In addition, the equity component of the preferred shares totalling C\$1,272,984 (\$1,138,939), net of related share issue costs, was charged to common shares.

Share issue costs associated with the preferred shares were pro-rated between the liability and equity components of the preferred shares in the amounts of \$650,700 and \$94,967, respectively. Share issue costs associated with the warrants were \$218,374. The amount allocated to the liability portion of the preferred share was deferred and was to be expensed over three years. Between the issuance date of June 12, 2009 and November 3, 2009, the amortization expense on the liability component of the preferred share issue costs was \$84,978. The financing costs relating to the equity portion were recorded as a cost of issue against the value of the equity portion of the preferred shares.

The fair value of the warrants was estimated using the Black-Scholes option pricing model under the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 2.0%; and, an expected average life of three years.

June 2009 Common Share Private Placement Financing

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\$10,143,301 (\$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, after issuing costs, were \$8,302,855, of which \$6,493,853 was allocated to common shares and \$1,809,002 to warrants. The grant date fair value of the warrants was estimated using the Black-Scholes option pricing model under the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 2.0%; and, an expected average life of approximately three years.

October 2009 Common Share Private Placement Financing and Accelerated Expiry of Common Share Purchase Warrants

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.

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The proceeds from the sale of the subscription receipts were held in escrow pending satisfaction of certain conditions, including the satisfaction of the conditions precedent to the completion of the Transaction between Crocodile Gold and Franc-Or. On November 2, 2009, upon satisfaction of the conditions, each subscription receipt automatically converted into one common share and one-half of a warrant.

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 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. 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. 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. The total share issue cost, including the estimated fair value of the compensation options, was \$3,404,286. The underlying warrants issuable upon exercise of the compensation options were also subject to the same accelerated expiry as the warrants.

After share issue costs, including the fair value assigned to the compensation options, a net amount of \$30,171,214 was recorded to shareholders' equity, of which \$25,600,919 was allocated to common shares and \$4,570,295 to warrants. The fair value of the 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 1.3%; and, an expected average life of two years.

*Acceleration of Common Share Purchase Warrants*

The common share purchase warrants issued as part of this private placement were subject to an accelerated expiry. The expiry date of the warrants could be accelerated at any time prior to the expiry of the warrants 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 could give notice to the warrant holders that the warrants would 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 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.

December 2009 Prospectus Financing

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\$24,696,686 (\$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 the "Commitments and Contingencies" section. 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. The fair value of the compensation options was estimated using the Black-Scholes option pricing model under 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.

Accelerated Expiry of Common Share Purchase Warrants Issued on the Franc-Or Transaction

In the Transaction with Franc-Or, the Company acquired 3,823,410 common share purchase warrants. 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

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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).

June 2010 Prospectus Financing

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 of 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 "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. 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.

November 2010 Prospectus Financing

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 "Commitments and Contingencies". A director of the Company, Stan Bharti, is an officer and director of Forbes & Manhattan. In addition, the Company agreed to grant 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).

\$25 Million Standby Credit Facility

On October 16, 2009, the Company entered into a \$25 million standby secured credit facility. Crocodile Gold had the option to draw on the credit facility, in full, at any time on or prior to June 30, 2010. Following the completion of the June 2010 prospectus financing described above and having only recently entered into commercial production, the Company chose not to draw down on the credit facility and it expired on June 30, 2010. With the Company's short operational history, management decided drawing down on the credit facility was not an option it currently wanted to pursue.

At the time of the draw down under the credit facility, the Company would have been entitled to elect the applicable interest rate of either: (i) 12.5% per annum; or, (ii) 10% per annum with the issuance of common share purchase warrants having a present value that would create a yield to maturity of 12.5% per annum, with interest payable quarterly. The credit facility would have matured in three years following draw down.

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 to be C\$2,400,000 (\$2,310,240) on the date of grant, as determined by 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 cost of the warrants and other deferred costs related to the credit facility were initially classified as an asset on the consolidated balance sheets as "Deferred credit facility costs", until the Company drew upon the credit facility. At which point it would have been applied against the carrying value of the loan and amortized over the life of the loan. With the expiry of the standby credit facility, the deferred costs of \$2,417,389 were charged to the statement of loss and comprehensive loss as a financing cost during 2010.

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**Outlook**

Operations

Crocodile Gold is forecasting to produce approximately 85,000 to 100,000 ounces of gold in 2011, which is an increase over production in 2010, but lower than previously forecast. The decrease in the expected production for 2011 is largely due to the delay in the start up of the Cosmo underground mine. The mine is expected to reach commercial levels of production in the fourth quarter of 2011 and produce approximately 15,000 ounces during the year. The Company previously assumed the Cosmo underground mine would reach commercial levels of production in the second quarter of 2011 and produce approximately 50,000 ounces during 2011.

The delays in bringing the Cosmo underground mine into production are largely the result of three factors:

- 1) Above average rainfall has been experienced during this year's wet season, which began in November and will last until late March or early April. Since the beginning of the wet season through the end of February, the operations have received approximately twice the normal rainfall, making the current wet season one of the wettest on record. The heavy rains have delayed the underground development and increased the amount of water in the Cosmo open pit.
- 2) Prior to completing the development of the Cosmo underground ore body, the Cosmo open pit mine must be dewatered. Most of the water will be pumped to an abandoned open pit mine named Alligator, located 14 kilometres northeast of the Cosmo pit, via a pipeline the Company has constructed. Delays in receiving the permits to begin the pumping process means that the completion of the dewatering is expected to occur by the third quarter 2011. Previously, the dewatering was expected to be completed by the end of March 2011.
- 3) During the fourth quarter of 2010, the Cosmo mine development and production contract was put out to tender. Following the completion of a tender review process, Leighton Contractors Resource Division was awarded a three year mining and development contract. The terms of the contract are consistent with the average mining costs detailed in the 2007 Cosmo underground feasibility study, which the Company is currently optimizing with its consultants. Development work at Cosmo by the incumbent contractor ended in December 2010 and Leighton Contractors Resource Division has mobilized to site and restarted development in mid March 2011. While the change is expected to benefit the overall development and long-term operation of the Cosmo underground mine, it has had an impact on the timing of the start of production.

With the delay in the start of mining at the Cosmo underground mine, most of the ore tonnes mined in 2011 will be open pit ore. Ore will be sourced from the Howley open pits throughout the year and from the North Point and Princess Louise open pit mines beginning in the second quarter of 2011, once the seasonal rains stop and the pits become accessible. Plans are currently being developed to maximize the amount of open pit material above a 1 g/t cut-off grade to maximize the amount of higher grade material sent to the mill. The average grade expected from the open pits during 2011 is 1.50 g/t. Also, approximately 40,000 tonnes of higher grade underground ore is expected to be mined from Brocks Creek until April 2011, supplementing the open pit ore tonnes prior to production commencing at Cosmo.

In preparation for the wet season, which will begin in the fourth quarter of 2011, the Company expects to stockpile over 200,000 ore tonnes during the first nine months of 2011. This will help the Company maintain production during the wet season at the end of 2011 and into the first quarter of 2012.

In 2010, the Company announced that it had identified deposits within the Union Reef's and Pine Creek areas as potential near term mining areas with the benefit of being adjacent to and within 15 kilometres of the Union Reef's mill. The Company is moving forward on the permitting and development activities on certain deposits within this area. Originally it was expected that mining could begin in the Pine Creek area at the end of the first quarter of 2011. However, based on recent discussions with the Northern Territory government, Crocodile Gold now expects that permits for the mining of the International pit at Pine Creek will not be received until the second quarter of 2011, which would push the start of production to late in 2011.

The Union Reef's mill is forecast to process approximately 2.1 million tonnes of ore based on an average mill availability of 90%. Expected mill availability of 95% during the dry season is forecast to be offset by lower mill utilization during the wet season in the first and fourth quarters of 2011.

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Capital Projects

During 2010, the surface installations, portal and 562 metres of underground development were completed at the Cosmo underground mine. Development had initially progressed ahead of schedule, but slowed during September as increased flow rates of water associated with poorer ground conditions in a fault were being encountered. Development ceased in December 2010 as the previous underground contractor demobilized and the Company took the opportunity to upgrade the existing ventilation system to allow development to proceed past the planned ventilation raise. With the mobilization of the new contractor during the first quarter of 2011, development recommenced. The critical path of the development of Cosmo is to have water levels reduced in the pit near a ventilation raise breakthrough in May 2011 so the permanent ventilation system can be established. The ventilation raise should be completed early in the third quarter of 2011.

Dewatering of the Cosmo pit will need to be completed prior to completing the development of the Cosmo underground mine. During the fourth quarter of 2010, the Company began the process to complete the dewatering of the Cosmo pit. Most of the remaining water will be pumped to an abandoned open pit mine named Alligator, located 14 kilometres northeast of the Cosmo pit, via a pipeline the Company constructed for this purpose. Pumping of the water was expected to be finalized before the end of the first quarter of 2011. However, delays in the receipt of government permits to begin dewatering along with exceptionally high levels of rain resulted in additional inflows of water into the Cosmo pit. Crocodile Gold received the permit to dewater the Cosmo pit and began dewatering in late February 2011. The total capital cost for the purchase and installation of the pipeline and pumps along with actually dewatering is now expected to be approximately \$11 million, an increase of \$5 million over the original estimate of \$6 million.

Various capital projects are budgeted to take place at the Union Reef's mill during 2011, especially during the first four months of 2011 as the rain reduces the mill availability and ore feed. During 2011, capital projects totalling approximately \$5 million are planned.

The Cosmo/Howley area, the location of a significant portion of the Company's existing resources, is located approximately 80 kilometres north of the Union Reef's mill. Currently, the ore from all the deposits being mined is shipped by road to the Union Reef's mill. The haulage cost adds to Crocodile Gold's overall operating costs. Beginning in late 2009, the Company began evaluating the potential of building a new mill closer to the existing resources. The evaluation of a new mill has continued, but with the potential of significant production from the Pine Creek/Union Reef's area located adjacent to the existing mill at Union Reef's, the decision on constructing a new mill at Cosmo has been deferred.

Exploration

Much of the exploration work scheduled for 2011 will involve the review and evaluation of the results of the 2010 drill program, along with the continued review of the Company's large historical database. It is hoped that the existing historical geological database can be used by the Company's exploration personnel to not only guide current exploration activities, but to also identify new targets. In some cases it may be possible with very little effort to verify historical data and add additional resources and reserves from these new deposits.

Despite the focus on drill results from 2010 and the historical database, the Company does plan to complete exploration drilling during 2011. During the first quarter of 2011, Crocodile Gold initiated drilling at certain assets in the Union Reef's area, targeting high grade underground targets, in particular at the Crosscourse, Prospect Claim and Lady Alice deposits. The Company also expects to drill underground at the Cosmo deposit. Based on success with exploration, especially at the targets listed above, programs will be accelerated as required.

**Liquidity and Capital Resources**

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, restricted cash of \$50,271, amounts receivable of \$2,229,773, 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 will include expenditures on mine development, various capital projects and exploration. Since the assets were acquired from GBS Gold Australia in November of 2009, monthly expenditures at the Company's operations have exceeded proceeds from the sale of gold. With the declaration of commercial production on June 1, 2010, the Company has begun to generate positive operating cash flow; however, ongoing capital projects, such as the development of the Cosmo underground mine, will continue to draw on available cash. The deferral of the start-up of Tom's Gully and the reduction to the

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exploration drilling, as the Company analyses and evaluates results, has helped help the Company manage its remaining working capital.

In addition, on March 17, 2011, the Company filed a final prospectus in relation to a financing for gross proceeds of C\$85,050,000 (\$86,037,000). As part of the financing, which closed on March 24, 2011, the Company issued 81,000,000 units at a price of C\$1.05 (\$1.06) per unit, with each unit consisting of one common share and one-half common share purchase warrant. The common share purchase warrants are exercisable at C\$2.25 (\$2.28) per warrant for a period of five years from the closing date. Additional details are provided below under the section entitled "Subsequent Events".

Future financing requirements, if any, will depend on a number of factors that are difficult to predict and are often beyond the control of the Company.

The Administrators of GBS Gold Australia, on behalf of its creditors, held security over the assets purchased by the Company. Upon the payment of the second and final deferred payment in June 2010 the security over the assets was released. A guarantee on the remaining deferred payment had been provided to the Administrators of GBS Gold Australia on behalf of the Company by Forbes & Manhattan, a private merchant bank incorporated in Canada. A director of the Company is an officer and director of Forbes & Manhattan.

### **Statement of Operations**

During the year ended December 31, 2010, Crocodile Gold recorded a net loss of \$19,836,004, or \$0.10 per share, compared with a net loss of \$18,061,083, or \$0.27 per share, in 2009. The net loss in 2010 included impairment charges against mineral and exploration assets of \$8,704,929. During the year ended December 31, 2009, the Company recorded a charge of \$12,326,762 for the excess of the purchase price paid on the Franc-Or Transaction over the fair value of the assets acquired.

The Company's Australian operations have been in commercial production since June 1, 2010. Prior to June 1, 2010, all operational activity and related revenue and costs were capitalized as development. During the seven month period since the declaration of commercial production, the Company has recorded gold sale revenue of \$73,178,056 on the sale of 56,990 ounces of gold, for an average realized price of \$1,284 per ounce. During the seven month period in 2010 since the declaration of commercial production, the Company milled 1,250,000 tonnes of ore at a head grade of 1.54 g/t and a recovery rate of 91.1% to produce 56,294 ounces of gold. The cash cost during this seven month period was \$1,109 per ounce on 56,990 ounces of gold sold (See Non-GAAP Measures below). The cash costs were higher than expected due to the processing of the higher cost pre-commercial production ounces in opening inventory at the commencement of commercial production and lower than expected head grade. The mining of short life open pits at North Point and Princess Louise resulted in no mining costs being capitalized as development with all costs being treated as an expense. The Cosmo underground mine, which has higher grade ore and a longer mine life, will be a major factor in reducing cash costs in 2011 and future periods.

Lower than expected production during the fourth quarter of 2010, due to heavier than usual monsoonal rains, also had a negative impact on the Company's cash cost during 2010. In addition, the Australian dollar strengthened since the beginning of 2010 and since June 1, 2010, the date commercial production was declared. At December 31, 2010, the Australian dollar, vis-à-vis the US dollar, was worth US\$1.0235, compared with US\$0.8978 at December 31, 2009 and US\$0.8385 at June 1, 2010.

Depreciation, depletion and amortization expense of \$9,810,492 was recorded on the statement of loss and comprehensive loss relating to the 56,990 ounces of gold sold between June 1, 2010 and December 31, 2010. The acquisition costs and exploration and development expenses relating to mineral properties, when brought into production are depleted on a unit-of-production basis based on proven and probable reserves. Property, plant and equipment are depreciated 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 of assets with a useful life shorter 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.

Operating costs and depreciation, depletion and amortization expense recorded prior to the declaration of commercial production and on assets not yet in production, including the Tom's Gully underground mine, have been capitalized to mineral interests. Revenue on metals sales prior to the declaration of commercial production and on assets not yet in production are credited against mineral interests. During the year ended December 31, 2010, operating costs and depreciation, depletion and

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amortization expense of \$43,578,954 was capitalized to mineral interest. Revenue on metals sales of \$26,706,031 during the same period was credited against mineral interests.

Royalty expense of \$393,534 related to ounces produced from the Company's Brock's Creek underground mine was incurred during the year ended December 31, 2010. Production from Brock's Creek is subject to a royalty of A\$20 per ounce. The royalty expense on production from Brock's Creek prior to June 1, 2010, totalling \$150,185, has been capitalized to mining interests.

During the year ended December 31, 2010, the Company has recorded total reclamation accretion expense of \$905,439. Accretion expense relating to operations under development between January 1, 2010 and May 31, 2010, totalling \$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. Reclamation accretion expense is calculated using the Company's credited adjusted risk-free rate at the time the liability is established, which was estimated to be 14%. Reclamation accretion expensed for the year ended 2009 was \$84,042.

Care and maintenance costs for the year ended December 31, 2010 of \$1,613,556 related to properties that have not yet been taken into production, including Maud Creek, Pine Creek and Tom's Gully, since the decision was made to defer start up. During the year ended December 31, 2009, the Company recorded care and maintenance expense of \$364,987.

Corporate general and administrative expense of \$4,463,506 and \$2,286,004 was recorded during the years ended December 31, 2010 and 2009, respectively, and is summarized as follows:

	Year Ended December 31, 2010	Year Ended December 31, 2009
Salaries and consulting fees	\$ 2,570,070	\$ 1,538,673
Professional fees	583,542	132,492
Travel expenses	474,883	310,191
Shareholders communication/filing fees	667,349	164,687
Insurance expense	43,096	19,129
Office supplies & general expenditures	124,566	120,832
	<u>\$ 4,463,506</u>	<u>\$ 2,286,004</u>

Corporate general and administrative activity in Australia and Canada, where the corporate head office is located, largely commenced with the purchase of the GBS Gold Australia assets in June 2009. Salaries and consulting fees include monthly fees payable to Forbes & Manhattan as described below under the section entitled "Commitments and Contingencies", along with other management contracts. Professional fees include legal fees and amounts paid to the Company's auditors. Travel expenses related to travel between Canada and the mining assets in Australia and travel for investor relations activities. Shareholders communication/filing fees relate to the communication of the various activities undertaken by the Company since the purchase of the GBS Gold Australia assets along with TSX listing fees and other regulatory filing costs since listing on the TSX in November 2009.

Stock-based compensation expense of \$4,231,779 was recorded in the statement of loss and comprehensive loss during the year ended December 31, 2010 (2009: \$2,088,864), relating to the vesting of options granted between July 10, 2009 and December 31, 2010. During 2010, 6,700,000 options were granted (2009: 11,160,000). Options granted typically vest over a two-year period with 1/8<sup>th</sup> of the grant vesting each quarter. At December 31, 2010, a total of 12,996,150 options were outstanding of which 6,240,190 had vested (2009: 11,806,583 options outstanding; 6,618,534 vested). The options granted during 2010 had an estimated grant date fair value of \$5,209,750 (2009: \$5,758,067). The estimated grant date fair value of the options was calculated by applying the Black-Scholes option pricing model using the following assumptions: expected dividend yield of 0% (2009: 0%); expected volatility of 100% to 72% (2009: 100%); risk-free interest rate between 1.8% and 2.7% (2009: 1.7% and 2.5%); and, an expected life of five to three years (2009: five years). The exercise price of the stock options granted during 2010 ranged between C\$1.09 and C\$2.24 per share (2009: C\$0.20 and C\$1.91 per share).

During 2010, the Company earned interest and other income of \$948,749 (2009: \$72,133). This income was largely earned on the cash and cash equivalents held during the year in Australia along with interest earned on the restricted cash being used as collateral for bank guarantees that have been issued by Westpac Bank to the Northern Territory government as security on environmental bonding requirements. During 2010, Australian dollar cash and cash equivalents, and restricted cash deposits earned interest at rates ranging between 4% and 6% per annum.

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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. During 2010, the Company also entered into currency forward contracts to help manage this foreign exchange risk. 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 US\$0.8701 for each Australian dollar. The Company realized a gain of \$1,363,578 on the settlement of these currency forward contracts, which is recorded on the statement of loss and comprehensive loss as a realized gain on non-hedge derivatives. The balance of the realized gain relates to the expiry of the embedded derivative with respect to the Canadian and Australian dollars in the ASA as described above under the section entitled "Purchase of Mining Assets from GBS Gold Australia Pty Ltd.". These contracts were entered into to normalize operating expenses incurred by the Company's foreign operations as expressed in US dollar terms. At December 31, 2010, the Company had no currency forward contracts outstanding; however, management expects to continue to use currency derivatives to help manage its foreign exchange risk within current guidelines approved by the board of directors. Under those guidelines, the Company may hedge up to 50% and 30% of its Australian dollar expenditures over the immediate three month period and subsequent four to twelve month period, respectively. This could be done both through holding Australian dollars and the use of currency derivatives.

As described above, the Company entered into a \$25 million standby secured credit facility in October 2009. Crocodile Gold had the option to draw on the credit facility, in full, at any time on or prior to June 30, 2010. The credit facility was to be used to finance the further 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 which had an estimated value of \$2,310,240, as determined by the Black-Scholes option pricing model. The cost of the warrants and other deferred costs of approximately \$100,000 related to the credit facility were classified as an asset on the consolidated balance sheet as "Deferred credit facility costs". If the Company drew upon the credit facility, the costs would have been applied against the carrying value of the loan and amortized over the life of the loan. The Company chose not to draw down on the credit facility and it expired on June 30, 2010. With the expiry of the credit facility, the deferred costs of \$2,417,389 were charged to the statement of loss and comprehensive loss as a financing cost.

During the year ended December 31, 2010, impairment charges against mineral interest and exploration properties of \$8,704,929 were recorded. An impairment charge of \$8,299,703 was recorded during the fourth quarter of 2010 against the Brock's Creek underground mine's assets as mining is expected to be discontinued during the second quarter of 2011.

During 2010, the Company also recorded an impairment charge of approximately \$300,000 related to the expiry of the option on the TOP tenements, which had been allocated as part of the purchase of the GBS Gold Australia assets. In addition, costs incurred at the Mario property in Peru during the year were also written off.

On the completion of the transaction with Franc-Or, as described above, the Company determined that the purchase price exceeded the fair value of net assets acquired by \$12,326,762 and a charge was recorded in 2009 in this amount on the statement of loss and comprehensive loss. The Transaction with Franc-Or was accounted for as a purchase of assets, with Crocodile Gold Inc. as the acquirer and Franc-Or as the acquired.

During the year ended December 31, 2010, the Company recorded a net foreign exchange gain of \$177,236. While the reporting currency of Crocodile Gold is the US dollar, the functional currency of its Australian operations, in 2010, was the Australian dollar and the Canadian dollar for its Canadian and Peruvian operations. The consolidated financial statements are translated into the US dollar using the current rate method. Under this method, all assets and liabilities are translated at the rate of exchange on the balance sheet date and all revenue and expense items are translated at the average rate of exchange for the period. Gains and losses on translation are included in equity as a separate component of other comprehensive income or loss. During the year ended December 31, 2010, the Company recorded unrealized gains on foreign currency translation of \$19,328,856. The gain on translation was the result of the US dollar weakening against both the Canadian and Australian dollars during 2010. The Canadian dollar, vis-à-vis the US dollar, was worth \$1.0054 at December 31, 2010, compared with \$0.9555 at December 31, 2009. The Australian dollar, vis-à-vis the US dollar, was worth \$1.0235 at December 31, 2010, compared with \$0.8979 at December 31, 2009. Including the unrealized gain on foreign currency translation in other comprehensive income, the Company's comprehensive loss for 2010 was \$507,148.

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**Cash Flow**

During the year ended December 31, 2010, operating activities provided cash of \$6,263,016. This compared with cash of \$5,629,309 used in operating activities during 2009. Cash provided by operating activities during 2010 was largely due to the cash flow from gold sales, net of cash operating expenses, following the declaration of commercial production, and less general and administrative costs and the net change in non-cash working capital. Cash used in operating activities in 2009 was the result of general and administrative expenses and changes in non-cash working capital.

Investing activities used \$94,401,079 during the year ended December 31, 2010, compared with \$51,456,468 during 2009. During 2010, investing activities consisted of pre-commercial production activities, the final deferred payment on the GBS Gold Australia asset purchase, capitalized exploration costs, development on the Cosmo underground mine, and development costs at Brock's Creek, Howley, Tom's Gully and at the Union Reef's mill. Pre-commercial production activities during the year consisted of operating costs of \$43,578,954, netted against the proceeds on the sale of gold of \$26,706,031 were deferred to mining interests. During the full twelve months ended December 31, 2010, the Company sold 80,525 ounces of gold at an average price of \$1,246 per ounce. During the year ended December 31, 2010, the price of gold on the London Bullion Market averaged \$1,225 per ounce. During the second quarter of 2010, the Company also made the final deferred payment on the purchase of the GBS Gold Australia assets of A\$15,000,000 (\$13,224,984).

Investing activities also had the replacement of reclamation deposits with the Northern Territory government with a bank guarantee fully collateralized with cash. An additional bank guarantee was also issued to a major supplier for A\$1,120,000 which was fully collateralized with cash.

Investing activities during the year ended December 31, 2009, related to the A\$5,000,000 (\$4,031,255) deposit on the purchase of the GBS Gold Australia mining assets and the A\$15,000,000 (\$12,043,500) payment made on signing the ASA, which included a payment of A\$8,011,500 (\$6,054,256) to replace an existing guarantee posted by a secured creditor with respect to reclamation bonds. A second payment of A\$15,000,000 was made in December 2009. Additional expenditures relating to the purchase and development of the mining assets along with additional reclamation bonding payments were also made.

Financing activities provided cash of \$83,759,411 during the year ended December 31, 2010, versus \$82,385,531 in 2009. During 2010, the Company received \$54,134,809 on two prospectus financings. In June 2010, the Company completed a prospectus financing where 17,710,000 common shares were issued at a price of C\$1.30 (\$1.27) per share. In November 2010, the Company completed a second prospectus financing, issuing 23,000,000 common shares at an issue price of C\$1.40 (\$1.37) per share. Additional details are outlined above under the section entitled "Equity Financings". During 2010, the Company also received proceeds totalling \$31,488,527 on the exercise of warrants for 24,554,555 common shares and \$3,137,160 on the exercise of 4,446,492 stock options. Shares issue costs of \$4,811,813 related to the prospectus financings were paid. Deferred transaction costs of \$62,853 related to the Company's \$25 million standby credit facility and payments on capital lease obligations for the Australian operations used \$126,419. The net carrying value of assets under capital lease obligations at the Australian operations totalled \$211,170 at December 31, 2010 (2009: \$208,436).

During the 2009, the Company raised net proceeds of \$82,399,866 through the completion of private placement and prospectus financings. In addition, the Company received cash of \$53,789 on the exercise of stock options and warrants. Deferred transaction costs of \$31,730 related to the Company's \$25 million standby credit facility and payments on capital lease obligations for the Australian operations used \$36,394.

**Off-Balance Sheet Items**

As at December 31, 2010, the Company did not have any off-balance sheet items.

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**Select Annual Information**

Activity within Crocodile Gold began during the year ended December 31, 2009. As a result, only information from the years ended December 31, 2010 and 2009 is presented.

	2010	2009
Revenues	\$73,351,420	\$ -
Net loss	\$(19,836,004)	\$(18,061,083)
Loss per share, basic and diluted	\$(0.10)	\$(0.27)
Total assets	\$197,218,386	\$117,156,961
Long-term liabilities	7,573,271	\$5,831,961

**Quarterly Information**

2010 - Quarters Ended	December 31st	September 30th	June 30th	March 31st
Revenues	\$ 31,760,478	\$ 30,646,673	\$ 10,944,269	\$ -
Net earnings (loss)	\$ (14,761,970)	\$ 2,393,803	\$ (5,330,538)	\$ (2,137,299)
Earnings (loss) per share (basic and diluted)	\$ (0.08)	\$ 0.01	\$ (0.03)	\$ (0.01)
Total assets	\$ 197,218,386	\$ 171,340,717	\$ 151,466,390	\$ 155,461,959
Long-term liabilities	\$ 7,573,271	\$ 6,898,896	\$ 5,855,386	\$ 6,157,757

  

2009 - Quarters Ended	December 31st	September 30th	June 30th	March 31st
Revenues	\$ -	\$ -	\$ -	\$ -
Net loss	\$ (15,902,843)	\$ (956,164)	\$ (566,241)	\$ (635,835)
Loss per share (basic and diluted)	\$ (0.13)	\$ (0.01)	\$ (0.01)	\$ (0.03)
Total assets	\$ 117,156,961	\$ 61,116,755	\$ 55,086,698	\$ 6,259,644
Long-term liabilities	\$ 5,831,961	\$ 12,557,920	\$ 10,432,913	\$ -

The increase in total assets between March 31, 2009 and December 31, 2010 reflects the purchase of the GBS Gold Australia assets, the completion of various equity financings and the exercise of common share purchase warrants. The increase in the long-term liabilities is due to the asset retirement obligation established on the purchase of the GBS Gold Australia assets and the liability component of the preferred shares issued in June 2009, which were subsequently converted into common shares in the fourth quarter of 2009. The increase in the loss during the fourth quarter of 2009 is largely due to the charge of \$12,326,762 to the statement of loss and comprehensive loss on the excess of the purchase price of Franc-Or over the estimated fair value of the net assets acquired. The revenues beginning during the three months ending June 30, 2010, are the result of the operations reaching commercial production.

Three Months Ended December 31, 2010

During the three months ended December 31, 2010, the Company recorded a net loss of \$14,761,970. The net loss included an impairment charge of \$8,299,703 against the Brock's Creek underground mine. The net loss during the quarter was also the result of lower than expected production, which was largely the result of heavier than usual monsoonal rains. In addition, the Australian dollar has strengthened since the beginning of 2010 and since the beginning of the quarter. The Company also recorded stock based compensation expense of \$1,267,379 during the period. During the fourth quarter, the Company recorded revenue of \$31,760,478 on the sale of 23,086 ounces of gold for an average realized price of \$1,373 per ounce. The average London PM Fix during the three months ended December 31, 2010 was \$1,367 per ounce

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**Outstanding and Issued Common Shares**

As at March 28, 2011, after the closing of the prospectus financing on March 24, 2011, the following common shares, common share purchase warrants and common share options were issued and outstanding:

- 309,838,811 common shares;
- 62,974,116 common share purchase warrants with exercise prices ranging between C\$1.00 and C\$2.25 and expiry dates ranging between December 18, 2011 and March 24, 2016; and
- 13,414,704 options to purchase common shares under the Company's share option plan with exercise prices ranging between C\$0.20 and C\$2.24 per share and expiry dates ranging between August 11, 2013 and March 21, 2016.

**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
<b>Financial Assets</b>				
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
<b>Financial Assets (Liabilities)</b>				
Cash	\$ 17,362,031	\$ 17,362,031	\$ -	\$ -
Cash equivalents	8,072,100	8,072,100	-	-
Restricted cash	47,660	47,660	-	-
Unrealized non-hedge derivative liability	(58,608)	-	(58,608)	-
	\$ 25,423,183	\$ 25,481,791	\$ (58,608)	\$ -

**Subsequent Event**

March 2011 Bought Deal Financing and Prospectus

Subsequent to the year-end, 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 shall consist of one common share of the Company and one-half of a common share

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purchase warrant. Each whole common share purchase warrant shall entitle 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.

Forbes & Manhattan waived a payment of C\$1,050,000 (\$1,078,000) that would have been due upon the completion of the prospectus financing (see Commitments and Contingencies).

**Non-GAAP Measures**

The Company has included a discussion of cash costs in this MD&A, which is a non-GAAP performance measure. In the gold mining industry, this is a common performance measure, but does not have any standardized meaning. The Company believes that, in addition to conventional measures prepared in accordance with GAAP, certain investors use this information to evaluate the Company's performance and ability to generate cash flow. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. The Company reports cash costs on a sales basis and it is calculated on a by-product basis by deducting silver sales revenue from operating cash costs. The following is a reconciliation of the cash cost per ounce of gold sold to the reported operating expenses for the period following the Company's declaration of commercial production on June 1, 2010:

	<u>Year ended</u> <u>December 31, 2010</u>
Operating expenses per consolidated statement of loss and comprehensive loss	\$ 63,726,536
By-product silver sales credit	(173,364)
Non-cash stock option expense charged to operating expenses	<u>(371,518)</u>
Operating cash costs	63,181,654
Divided by ounces of gold sold (commercial production ounces)	<u>56,990</u>
Cash cost per ounce	<u>\$ 1,109</u>

**Critical Accounting Estimates**

The Company's significant accounting policies are described in Note 2 to the consolidated financial statements for the year ended December 31, 2010. The preparation of statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. The following is a list of the accounting policies that management believes are critical, due to the degree of uncertainty regarding the estimates and assumptions involved and the magnitude of the asset, liability or expense being reported:

- Inventories
- Mineral interests and deferred mining expenditure
- Asset retirement obligations
- Revenue recognition
- Stock-based compensation
- Foreign currency translation

*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. At December 31, 2010, ore stockpiles, gold

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in circuit and gold bullion are carried at net realizable value. Supplies are valued at the lower of average cost and net realizable value. At December 31, 2010, the Company had inventories carried at a total value of \$8,807,187, which included ore stockpiles of \$1,761,264, gold in circuit of \$3,226,704, gold bullion of \$165,595 and supplies of \$3,653,624.

*Mining interests and deferred mining expenditure*

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.

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. The Company has adopted the recommendations of the CICA with respect to stripping charges, EIC-160 *Stripping Costs Incurred in the Production Phase of a Mining Operation* ("EIC-160"). These recommendations require the costs associated with the removal of overburden and other mine waste materials that are incurred in the production phase of mining operations to be charged to income in the year in which they are incurred, except when the costs represent a betterment to the mineral property. Costs represent a betterment when the activity provides access to reserves that would not have been accessible in the absence of the activity concerned. When costs are deferred in relation to betterment, the costs are amortized over the life of the area of interest on a unit of production basis.

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. During the year ended December 31, 2010, the Company recorded an impairment charge against mining interests of \$8,704,929. 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.

As at December 31, 2010, the Company had mining interests on the balance sheet totalling \$147,267,493, which included the total purchase price, including stamp duty tax and development of the former GBS Gold Australia mining assets, less impairment charges recorded.

*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.

At December 31, 2010, the asset retirement obligation ("ARO") liability was \$8,322,685. The ARO was estimated based on total undiscounted future liabilities of approximately \$14 million (A\$13,666,000), an inflation rate assumption of 3% and a credit adjusted risk-free rate of 14%. Reclamation is expected to occur between the next one to 14 years.

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*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.

*Stock-based compensation*

The Company records stock-based compensation costs 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, are credited to common shares.

Stock-based compensation expense of \$4,231,779 was recorded in the statement of loss and comprehensive loss during the year ended December 31, 2010, relating to the vesting of options granted between July 10, 2009 and December 31, 2010. During 2010, 6,700,000 options were granted (2009: 11,160,000). At December 31, 2010, a total of 12,996,150 options were outstanding of which 6,240,190 had vested (2009: 11,806,583 options outstanding; 6,618,534 vested). The estimated grant date fair value of the options was calculated by applying the Black-Scholes option pricing model using the following assumptions: expected dividend yield of 0% (2009: 0%); expected volatility of 100% to 72% (2009: 100%); risk-free interest rate between 1.8% and 2.7% (2009: 1.7% and 2.5%); and, an expected life of five to three years (2009: five years). The exercise price of the stock options granted during 2010 ranged between C\$1.09 and C\$2.24 per share (2009: C\$0.20 and C\$1.91 per share).

*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. Prior to January 1, 2010, the Company's foreign subsidiaries were considered to be integrated foreign operations. 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 and as a result, the temporal method is used to translate the accounts of these integrated operations into Canadian dollars.

Due to the strengthening of both the Canadian and Australian dollars against the US dollar during 2010, the Company recorded an unrealized gain on foreign currency translations of \$19,328,856 (2009: \$3,125,397). During 2010, the Canadian dollar, vis-à-vis the US dollar, increased from \$0.9555 at December 31, 2009 to 1.0054 at December 31, 2010. During the same period, the Australian dollar, vis-à-vis the US dollar, increased from \$0.8978 at December 31, 2009 to 1.0235 at December 31, 2010.

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**Changes in Accounting Policy**

*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.

**Recent Accounting Pronouncements**

**Status of Crocodile Gold’s Transition to International Financial Reporting Standards (IFRS)**

The Company’s conversion to IFRS progressed into the implementation phase during 2010. Major efforts to be completed during the first quarter of 2011 include the quantification of the Company’s opening balance sheet as of January 1, 2010 and the conversion of the 2010 quarterly financial statements, which will become the comparatives for the 2011 IFRS quarterly financial statements.

Background

On February 13, 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to change over to IFRS from Canadian GAAP for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. As a result, Crocodile Gold will report under IFRS for interim and annual periods beginning January 1, 2011, with comparative information for 2010 restated for IFRS. Adoption of IFRS as Canadian GAAP will require the Company to make certain accounting policy choices that could materially impact the reported financial position and results of operations. The Company’s goal is to make policy changes that are compliant with IFRS, but also provide the most meaningful information to the Company’s shareholders.

The conversion project is being completed in three phases:

*Assessment phase:*

In this phase, the Company formed a working group, developed an initial project plan, and identified high level differences between Canadian GAAP and IFRS that may impact the Company. This phase was completed in 2009 in conjunction with external consulting resources.

*Design phase:*

This phase involves the analysis of the differences between Crocodile Gold’s accounting policies under Canadian GAAP and IFRS to provide a basis for accounting policy recommendations. The working group in this phase is comprised of the CFO and the corporate finance teams, with updates regarding the progress of the IFRS changeover plan provided quarterly to the Company’s audit committee and regular consultation with the external auditors. Crocodile Gold’s Australian subsidiaries have in fact prepared consolidated financial statements for the years ended December 31, 2009 and 2010 under IFRS due to the existing regulatory requirements to prepare IFRS compliant financial statements in Australia. The IFRS accounting policies of Crocodile Gold’s Australian subsidiaries will conform when the Company prepares its IFRS compliant consolidated financial

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statements. This phase also included the Company considering its accounting policy choices under the IFRS 1 conversion standard and the elections/exemptions to be applied to its January 1, 2010 opening balance sheet.

*Implementation phase:*

This phase involves the implementation of the necessary changes to the Company's information systems and business processes as identified through the assessment and design phases of the changeover plan, the amendment and testing of internal controls over financial reporting and disclosure controls and procedures impacted by accounting policy, and the preparation of a January 1, 2010 opening balance sheet and 2010 comparative data under IFRS, with reconciliations from Canadian GAAP. The final phase will result in the preparation of financial reporting under IFRS beginning in the first quarter of 2011.

IFRS 1, First-Time Adoption of IFRS

IFRS 1 provides the framework for the first-time adoption of IFRS and specifies that, in general, an entity shall apply the principles under IFRS retrospectively. Certain optional exemptions and mandatory exceptions to retrospective application are provided for under IFRS 1. Prior to reporting the first IFRS compliant financial statements for the quarter ending March 31, 2011, the Company may decide to apply certain of the exemptions contained in IFRS 1.

*Business combinations*

The Company expects to elect under IFRS 1 not to restate business combinations that occurred prior to the transition date.

*Fair value as deemed cost*

The Company expects not to elect under IFRS 1 to initially measure an item of property, plant and equipment upon transition to IFRS at fair value on the transition date, or at an event-driven fair value (i.e. a fair value determined through a business combination or initial public offering).

*Cumulative translation account ("CTA")*

The Company expects to elect the option under IFRS 1 that allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from prior to the date of transition to IFRS.

*Decommissioning liabilities*

The Company expects to elect under IFRS 1 to apply the provisions of IFRIC 1 - Changes in Existing Decommission, Restoration and Similar Liabilities, as they relate to changes in such liabilities before the date of transition to IFRS. Applying this exemption the Company will determine its decommissioning liabilities at the transition date, discount the liabilities back to the dates when they first arose using management's best estimate of the historical risk-adjusted discount rates, and depreciate these amounts forward to the transition date to determine the amount to be included in the depreciated cost of the assets.

*Share-based payment*

IFRS 1 encourages, but does not require a first time adopter to apply IFRS 2 – Share-based Payment ("IFRS 2") to equity instruments that were granted on or before November 7, 2002, or were granted after November 7, 2002 but vested before the Company's IFRS transition date. This election is not applicable to the Company.

*Borrowing costs*

The Company expects not to elect under IFRS 1 to apply the transitional provisions of IAS 23 - Borrowing Costs ("IAS 23") as an alternative to full retrospective application. Under these provisions, the Company may elect to only apply IAS 23 to qualifying assets for which the commencement date for capitalization is on or after the date of transition (or an elected earlier date).

Impact of Adopting IFRS on the Company's Opening Balance Sheet

Standards under IFRS are based on a conceptual framework similar to Canadian GAAP, however significant differences exist in certain matters of recognition, measurement and disclosure. While the Company believes that the adoption of IFRS will not have a material impact on the Company's reported cash flows, it will likely have a larger impact on the consolidated balance sheets and statements of loss. In particular, the Company's opening balance sheet is expected to reflect the expensing of post-acquisition exploration costs and pre-commercial production operating losses, as well as the restatement of the asset retirement

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obligation. Certain income statement items such as depreciation, depletion and amortization expense, accretion and share-based compensation expense are also expected to be impacted as a result of these changes.

This discussion has been prepared using the IFRS standards and interpretations currently issued and expected to be in force during 2011, the Company's first annual IFRS reporting period. It should be noted that should the regulatory environment or standards substantially change from those currently defined, the Company's elections and accounting policy selections may be modified accordingly. At the present time however, the Company is not aware of any significant expected changes that would materially impact the summary presented below.

*Provision for reclamation and rehabilitation*

Under IFRS, a liability must be recognized at the time when the entity becomes legally or constructively obliged to rehabilitate a disturbance resulting from mining activities, while under Canadian GAAP, a liability is only recognized when the entity is legally bound. Discount rates used should reflect the risks specific to the decommissioning provision. Unlike IFRS, under Canadian GAAP discount rates for asset retirement obligations are based on the entity's credit-adjusted risk-free rate. IFRS requires re-measurement of the liability at each reporting date, whereas Canadian GAAP requires re-measurement of the liability in the event of changes in the amount or timing of cash flows required to settle the obligation. Over and above this, IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, requires the re-measurement of the provision for reclamation and rehabilitation if there is a change in the current market-based discount rate, while under Canadian GAAP, HB 3110 *Asset Retirement Obligations*, the provision for reclamation and rehabilitation is not adjusted for changes in the discount rate.

The use of the current discount rate for all changes in estimates, combined with the requirement to re-measure the liability at each reporting date under IFRS, will significantly simplify the process required to measure any restoration liabilities as there will no longer be a need to record and account for separate layers of the original liability and each subsequent upward revision in estimated cash flows. As a result, the ARO liability under IFRS has been re-measured using the risk-free discount rate in effect at January 1, 2010, which is expected to result in an adjustment of approximately \$3.6 million recorded as an increase to asset retirement obligations as at January 1, 2010 and a reduction of mining interests by an offsetting amount.

*Exploration expenditures*

IFRS 6 applies to exploration and evaluation expenditures incurred by an entity in connection with the exploration and evaluation of mineral resources. An entity may choose to defer on the balance sheet nearly all exploration and evaluation expenditures, or recognize all such expenditures in the statement of income and comprehensive income as incurred.

The Company expects to elect to change its current policy of deferring all exploration and evaluation expenditures and to expense post-acquisition exploration costs as incurred. Consequently, an adjustment of approximately \$2.6 million is expected to reduce the carrying value of mining interests at January 1, 2010.

*Pre-commercial production operating losses*

As IFRS does not recognize the concept of commercial production, but rather refers to an "available for use" test, all operating expenditure and revenue earned during the pre-production stage and previously capitalized by the Company under Canadian GAAP will have to be expensed under IFRS. As at January 1, 2010, this is expected to result in an adjustment of approximately \$3.1 million to reduce the carrying value of mining interests.

*Share-based payments*

In certain circumstances, IFRS requires a different measurement of stock-based compensation than current Canadian GAAP. The Company is currently evaluating any impact hereof.

Full auditor attestation of the 2010 converted IFRS statements, including the opening balance sheet as of January 1, 2010 and the 2010 interim financial statements, will be provided at the conclusion of the annual audit of the 2011 financial statements, which is scheduled to be completed during the first quarter of 2012.

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Impact of ongoing or future differences between IFRS and Canadian GAAP

*Impairment of assets*

IAS 36, *Impairment of Assets*, uses a one-step approach for both the testing and measurement of impairment, with the asset carrying values compared directly with the higher of fair value less costs to sell and value in use, which is based on discounted future cash flows. Canadian GAAP, on the other hand, generally uses a two-step approach to impairment testing of long-lived assets and finite-life intangible assets by first comparing asset carrying values with undiscounted future cash flows to determine whether an impairment exists. If it is determined that there is impairment under this basis, the impairment is then calculated by comparing the asset carrying values with fair values (on a discounted basis) in much the same manner as computed under IFRS. Additionally under IFRS, testing for impairment occurs at the level of cash generating units, which is the lowest level of assets that generate largely independent cash inflows. This lower level of grouping compared to Canadian GAAP along with the one-step approach to testing for impairment may or may not increase the likelihood that the Company will realize an impairment of assets under IFRS. It should also be noted that under IAS 36, previous impairment losses can be reversed when there are indications that the circumstances that gave rise to the impairment have changed, whereas Canadian GAAP prohibits reversal of non-financial asset impairment losses.

As at January 1, 2010, impairment of asset carrying values was considered in accordance with the provisions of IAS 36. The result indicated no impairment of the assets. The Company's IFRS-based accounting policies related to impairment of non-financial assets will be changed to reflect the differences in the standards.

*Foreign currency*

IFRS requires that the functional currency of Crocodile Gold and its subsidiaries be determined independently for each entity, and under IFRS the factors considered to determine the entity's functional currency are somewhat different than the factors considered in current Canadian GAAP.

After review, the Company has determined that its current accounting treatment related to foreign currency and its determination of its entity-specific functional currency is not affected and therefore no change is required.

*Financial disclosures*

Annual IFRS-compliant financial statement note disclosures will be drafted and reviewed with the Company's audit committee during the fourth quarter of 2011. The Company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required, as well as any further system changes that may be necessary to gather and process the information.

*Training*

Training of IFRS requirements with all management levels will continue into 2011. IFRS training program requirements for other stakeholders of the Company are being assessed.

IFRS Impact on Internal Control over Financial Reporting (ICFR) and Disclosure Controls and Procedures (DC&P)

Management has continually evaluated the impact of the adoption of IFRS on the reporting and disclosure processes of the Company. During the conversion project, management has and will continue to make modifications to certain of its internal reports, its data analysis, information systems and reporting processes to incorporate the collection of information necessary under IFRS. Since these changes represented only a component part of the reporting process, no material changes to the Company's processes or controls have been specifically required as a result of this conversion.

As a result of the convergence of Canadian GAAP with IFRS standards, the Company has not made material changes to its ICFR or DC&P during the course of its conversion project.

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*IFRS Impact on Information Systems*

In order to facilitate the compilation of information required for IFRS reporting and disclosures, management has made appropriate modifications to its consolidation system and processes. Those changes generally required minor changes to reports or data analysis to ensure that additional information required for disclosures under IFRS, which was not currently collected under Canadian GAAP, were appropriately tracked for IFRS reporting purposes.

**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 company or the Company acquires more than 50% of another company 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.

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.

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(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 Brock's 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 Brock's Creek area. The royalty becomes payable only after recovery of all operating and capital costs involved with the post-1995 development of the Brock's 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; and,
- (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
<b>Total</b>	<b>\$ 59,044</b>

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 the leases were as follows:

Year	Minimum lease commitments
2011	\$ 102,587
<b>Total</b>	<b>\$ 102,587</b>

(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.

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(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 at \$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 North 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.

(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.

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**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 above under the section entitled, "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 totalling \$451,000 were paid to directors, officers and consultants of Crocodile Gold. During the year ended December 31, 2009, bonuses totalling \$1,754,000 were paid to directors, officers and consultants of Crocodile Gold, including a \$952,000 payment to Forbes & Manhattan.

Forbes & Manhattan also participated in the private placement in March 2009 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 were 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 stock option plan, accelerated the vesting of the unvested options to allow for their exercise.

The Company shares its premises with other companies that have common directors and/or officers. The Company reimburses and recovers from the related companies 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 companies. Such amounts are unsecured, non-interest bearing, with no fixed terms of repayment.

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.

**Risk Factors**

The exploration for, and development and mining of mineral deposits involve significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. Risk factors relating to the business are described under "Risk Factors" in the Company's revised Annual Information Form filed on SEDAR under the profile of Crocodile Gold Corp. on November 8, 2010.

*Crocodile Gold's Securities May Experience Price Volatility*

Securities markets have recently had a high level of price and volume volatility, and the market price of securities of many companies have experienced wide fluctuations in price that have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. Factors unrelated to the financial performance or prospects of Crocodile Gold include macroeconomic developments locally and globally, and market perceptions of the attractiveness of particular industries. There can be no assurance that continued fluctuations in mineral prices will not occur. As a result of any of these factors, the market price of the securities of the Company at any given point in time may not accurately reflect the long term value of Crocodile Gold. In the past, following periods of volatility in the market price of a company's securities,

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shareholders have instituted class action securities litigation against those companies. Such litigation, if instituted, could result in substantial cost and diversion of management attention and resources, which could significantly harm profitability and the reputation of Crocodile Gold.

*Mines Have Limited Lives*

Mining companies need to continually discover, develop, or acquire mineral reserves. Because mines have limited lives based on resource and reserve estimates, the Company must continually replace and expand mineral resources and reserves as it produces gold. Crocodile Gold's ability to maintain or increase its annual production of gold will be dependent in significant part on its ability to bring new mines into production and to expand or extend the life of existing mines.

*Risks Associated with Mineral Resource Estimates*

The Company has defined mineral resources in accordance with NI 43-101 in respect of the assets of Crocodile Gold and is currently conducting mining operations on these resources, however it has limited defined current mineral reserves on its projects. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Due to the uncertainty of measured, indicated or inferred mineral resources, these mineral resources may never be upgraded to proven and probable mineral reserves. Readers are cautioned not to assume that any part of mineral deposits in these categories will ever be converted into reserves or recovered as part of the Company's mining operations. In addition, resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. Should the Company encounter mineralization or formations different from those predicted by past sampling and drilling, resource estimates may have to be adjusted and mining plans may have to be altered in a way which could have a negative effect on Crocodile Gold's operations.

*Australian Foreign Investment Law*

Under Australia law a person acquiring control or direction, directly or indirectly, of 15% or more of the Common Shares may be required to obtain prior approval from the Australia Foreign Investment Review Board ("FIRB"). Failure by any investor to obtain such approval under Australian law prior to acquiring control or direction, directly or indirectly, of 15% or more of the securities of the Company may be subject to fines or may be forced to dispose of a portion of its investment. Investors should consult their own legal advisers prior to making any investment in securities of the Company.

*Government Regulation*

The Company's business, mining operations and exploration and development activities are subject to extensive federal, territorial and local laws and regulations governing exploration, development, production, exports, taxes, labour standards, waste disposal, protection of the environment, reclamation, historic and cultural resource preservation, mine safety and occupational health, control of toxic substances, reporting and other matters, as well as accounting standards. Compliance with these laws, regulations and standards or the imposition of similar requirements could adversely affect operating and development costs, the timing of operations, the ability to operate and financial results.

*Current Global Financial Condition*

Recent events in the United States, Canada, global financial markets, the financial services industry and economic conditions generally have had a significant impact on the global economy. Many industries, including the gold mining industry, are impacted by these market conditions. Notwithstanding various actions by the United States, Canada and foreign governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions could adversely affect the broader credit markets and stock markets. In addition, general economic indicators, including consumer sentiment, unemployment and economic growth and uncertainty about corporate earnings could have a material adverse impact on the availability of capital and credit for many companies. These disruptions could, among other things, make it more difficult for the Crocodile Gold to obtain, or increase its cost of obtaining, capital and financing for its operations. A deterioration of the financial markets or other economic conditions, including but not limited to adverse developments in the sovereign debt markets, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates and tax rates may adversely affect the Company's growth and profitability. Specifically, adverse developments in the credit markets could impact the cost and availability of financing and the Company's overall liquidity; the volatility of gold prices may impact its revenues, profits and cash flow; volatile energy prices, commodity and consumables prices may impact potential production costs; and the devaluation and volatility of global stock markets could impact the valuation of the Crocodile Gold's equity securities. These factors could have a material adverse effect on the Company's financial condition and results of operations.

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*Price of Gold*

Changes in the market price of gold, that in the past have fluctuated widely, will affect the profitability of Crocodile Gold's operations and its financial condition. Crocodile Gold's revenues, profitability and viability will depend on the market price of gold produced from the Company's mines. The market price of gold is set in the world market and is affected by numerous industry factors beyond Crocodile Gold's control including the demand for precious metals, expectations with respect to the rate of inflation, interest rates, currency exchange rates, the demand for jewelry and industrial products containing metals, production levels, inventories, costs of substitutes, changes in global or regional investment or consumption patterns, and sales by central banks and other holders, actions of speculators and producers of gold and other metals in response to any of the above factors, and global and regional political and economic factors. A decline in the market price of gold below Crocodile Gold's anticipated production costs for any sustained period would have a material adverse impact on the profit, cash flow and results of operations of the Company's projects and anticipated future operations. Such a decline also could have a material adverse impact on the ability of Crocodile Gold to finance the exploration and development of its existing and future mineral projects. A decline in the market price of gold may also require Crocodile Gold to reduce its estimated mineral reserves, which would have a material adverse effect on the value of Crocodile Gold's securities. Further, if revenue from gold sales declines, the Company may experience liquidity difficulties in the future. Crocodile Gold will also have to assess the economic impact of any sustained lower gold prices on recoverability and therefore, on cut-off grades and the level of its mineral reserves and resources.

*Exploration, Development and Operating Risks*

Mining operations generally involve a high degree of risk. Crocodile Gold's operations are subject to all of the hazards and risks normally encountered in the exploration, development and production of gold and base metals, including: unusual and unexpected geologic formations; seismic activity; rock bursts; cave-ins; flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities; damage to life or property; environmental damage and possible legal liability.

Although adequate precautions to minimize risk will be taken, milling operations are subject to hazards such as equipment failure or the failure to retain dams around tailings disposal areas that may result in environmental pollution and consequent liability. The exploration for and development of mineral deposits involves significant risks that even a combination of careful evaluation, experience and knowledge may not eliminate. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices, which are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in Crocodile Gold not receiving an adequate return on invested capital.

Development projects have no operating history upon which to base estimates of future capital and operating costs. For development projects, resource estimates and estimates of operating costs are, to a large extent, based upon the interpretation of geologic data obtained from drill holes and other sampling techniques, and feasibility studies, which derive estimates of capital and operating costs based upon anticipated tonnage and grades of ore to be mined and processed, ground conditions, the configuration of the ore body, expected recovery rates of minerals from ore, estimated operating costs, and other factors. As a result, actual production, cash operating costs and economic returns could differ significantly from those estimated. It is not unusual for new mining operations to experience problems during the start-up phase, and delays in the commencement of production often can occur.

Mineral exploration is highly speculative in nature. There is no assurance that exploration efforts will be successful. Even when mineralization is discovered, it may take several years until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable mineral reserves through drilling. Because of these uncertainties, no assurance can be given that exploration programs will result in the establishment or expansion of mineral resources or mineral reserves. There is no certainty that the expenditures made towards the search and evaluation of mineral deposits will result in discoveries or development of commercial quantities of ore.

*Production Estimates*

Crocodile Gold has prepared estimates of future gold production for its existing and future mines. Crocodile Gold cannot give any assurance that it will achieve its production estimates. The failure by Crocodile Gold to achieve its production estimates could have a material adverse effect on any or all of its future cash flows, profitability, results of operations and financial conditions.

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The realization of production estimates is dependent on, among other things, the accuracy of mineral reserve and resource estimates, the accuracy of assumptions regarding ore grades and recovery rates, ground conditions (including hydrology), the physical characteristics of ores, the presence or absence of particular metallurgical characteristics, and the accuracy of the estimated rates and costs of mining, ore haulage and processing. Actual production may vary from estimates for a variety of reasons, including the actual ore mined varying from estimates of grade or tonnage; dilution and metallurgical and other characteristics (whether based on representative samples of ore or not); short-term operating factors such as the need for sequential development of ore bodies and the processing of new or adjacent ore grades from those planned; mine failures or slope failures; industrial accidents; natural phenomena such as inclement weather conditions, floods, droughts, rock slides and earthquakes; encountering unusual or unexpected geological conditions; changes in power costs and potential power shortages; shortages of principal supplies needed for mining operations; including explosives, fuels, chemical reagents, water, equipment parts and lubricants; plant and equipment failure; the inability to process certain types of ores; labour shortages or strikes; and restrictions or regulations imposed by government agencies or other changes in the regulatory environment. Such occurrences could also result in damage to mineral properties or mines, interruptions in production, injury or death to persons, damage to property of Crocodile Gold or others, monetary losses and legal liabilities in addition to adversely affecting mineral production. These factors may cause a mineral deposit that has been mined profitably in the past to become unprofitable forcing Crocodile Gold to cease production.

*Cost Estimates*

Capital and operating cost estimates made in respect of Crocodile Gold's mines and development projects may not prove accurate. Capital and operating cost estimates are based on the interpretation of geological data, feasibility studies, anticipated climatic conditions, other factors and assumptions regarding foreign exchange currency rates. The ultimate accuracy of such estimates could be affected by unanticipated changes in grade and tonnage of ore to be mined and processed; incorrect data on which engineering assumptions are made; delay in construction schedules; unanticipated or increased transportation costs; the accuracy of major equipment and construction cost estimates; labour negotiations; changes in government regulation (including regulations regarding prices, cost of consumables, royalties, duties, taxes, permitting and restrictions on production quotas on exportation of minerals) and title claims.

*Northern Territory Wet Season*

All of Crocodile Gold's material properties are located in the Northern Territory of Australia. Typically, the Northern Territory's tropical wet season is from the end of November to the end of March. During the wet season, the properties may be subject to unpredictable weather conditions such as cyclones, heavy rains, strong winds and flash flooding. Crocodile Gold has undertaken several steps to minimize the effects of the wet season on its operations including sealing roads, accommodating the build-up of mined inventory and planning exploration and mining activities around the wet season. Nonetheless, no assurance can be given that the unpredictable weather conditions will not adversely affect mining and exploration activities. In particular, mining, drilling and exploration activities may have to be suspended due to poor ground conditions; ore haulage activities may be slowed or delayed as roads may be temporarily flooded, and deposits where the host rock is clayish in nature may have to be mined or processed at slower-than-anticipated rates and/or mixed with lower grade stockpile ore. As a result, during the first and fourth quarters of the calendar year, the financial performance and results of operations may vary significantly from the second and third quarters.

*Native Title and Aboriginal Heritage Issues*

Native title claims and Aboriginal heritage issues may affect the ability of Crocodile Gold to pursue exploration, development and mining on Australian properties. The resolution of native title and Aboriginal heritage issues is an integral part of exploration and mining operations in Australia and Crocodile Gold is committed to managing the issues effectively. However, in view of the inherent legal and factual uncertainties, no assurance can be given that material adverse consequences will not arise in connection with native title and Aboriginal heritage issues.

*Infrastructure*

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants that affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect Crocodile Gold's operations, financial condition and results of operations.

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*Environmental Regulation and Reclamation Obligations*

Crocodile Gold's activities are subject to laws and regulations controlling not only the mining of and exploration for mineral properties, but also the possible effects of such activities upon the environment. Environment laws may change and make the mining and processing of ore uneconomic, or result in significant environmental or reclamation costs. Environmental legislation provides for restrictions and prohibitions on spills, releases, or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which could result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties or the suspension or closure of mining operations. In addition, certain types of operations require the submission of environmental impact statements and approval thereof by government authorities. Environmental legislation is evolving in a manner that may mean stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. Permits from a variety of regulatory authorities are required for many aspects of mine development, operation and reclamation. Future legislation and regulations could cause additional expense, capital expenditures, restrictions, liabilities and delays in the development of Crocodile Gold's properties, the extent of which cannot be reliably predicted. In the context of environmental permits, including the approval of reclamation plans, Crocodile Gold must comply with standards, laws and regulations that may entail costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the regulatory authority. The reclamation liability on any of Crocodile Gold's properties will be calculated based on current laws and regulations and the expected future costs to be incurred in reclaiming, restoring and closing its exploration or operating mine sites. It is possible that the Company's estimate of its ultimate reclamation liability could change as a result of changes in laws and regulations and changes in cost estimates. Should Crocodile Gold be unable to post required financial assurance related to an environmental remediation obligation, the Company might be prohibited from starting planned operations or required to suspend existing operations or enter into interim compliance measures pending completion of the required remedy, which could have a material adverse effect.

*Insurance and Uninsured Risks*

Crocodile Gold's business is subject to a number of risks and hazards generally, including: adverse environmental conditions; industrial accidents; labour disputes; unusual or unexpected geological conditions; ground or slope failures; cave-ins; changes in the regulatory environment; and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to Crocodile Gold's properties or the properties of others, delays in mining, monetary losses and possible legal liability. The businesses and properties of Crocodile Gold are insured against loss or damage with coverage of types and in amounts consistent with the types and amounts of insurance maintained by companies and other entities of a size and carrying on business of a type carried on by Crocodile Gold. However, such insurance will not cover all the potential risks associated with a mining company's operations. Crocodile Gold may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to Crocodile Gold or to other companies in the mining industry on acceptable terms. Crocodile Gold might also become subject to liability for pollution or other hazards that may not be insured against or that Crocodile Gold may elect not to insure against because of premium costs or other reasons. Losses from these events may cause Crocodile Gold to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

*Competition*

The mining industry is intensely competitive in all of its phases and Crocodile Gold competes with many companies possessing greater financial and technical resources. Competition in the precious metals mining industry is primarily for mineral rich properties that can be developed and produced economically; the technical expertise to find, develop, and operate such properties; the labour to operate the properties; and the capital for the purpose of funding such properties. Many competitors not only explore for and mine precious metals, but conduct refining and marketing operations on a global basis. Such competition may result in Crocodile Gold being unable to acquire desired properties, to recruit or retain qualified employees or to acquire the capital necessary to fund its operations and develop its properties. Existing or future competition in the mining industry could materially adversely affect Crocodile Gold's prospects for mineral exploration and success in the future.

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*Currency Fluctuations*

Currency fluctuations may affect Crocodile Gold's costs and margins. Gold is sold throughout the world based in U.S. dollars. Crocodile Gold pays for goods and services in Australian dollars. Adverse fluctuations in the Australian dollar relative to the U.S. dollar could materially and adversely affect Crocodile Gold's profitability, results of operation and financial position.

*Crocodile Gold Has Limited Historical Production Revenues*

To date, Crocodile Gold has only recorded limited revenues from mining operations and only recently declared commercial production on any of its properties, effective June 1, 2010. There can be no assurance that significant additional losses will not occur in the near future or that Crocodile Gold will be profitable in the future. Crocodile Gold's operating expenses and capital expenditures may increase in subsequent years as consultants, personnel and equipment associated with advancing exploration, development and commercial production of its properties are added. The amounts and timing of expenditures will depend on the progress of ongoing exploration and development, the results of consultants' analyses and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners, Crocodile Gold's acquisition of additional properties and other factors, many of which are beyond the Company's control. Crocodile Gold expects to continue to incur losses unless and until such time as its properties enter into commercial production and generate sufficient revenues to fund its continuing operations. The development of certain of Crocodile Gold's properties will require the commitment of substantial resources to conduct the time-consuming exploration and development of properties. There can be no assurance that Crocodile Gold will generate positive cash flows or achieve profitability. There can be no assurance that the underlying assumed levels of expenses will prove to be accurate.

*Foreign Mining Tax Regimes*

Mining tax regimes in foreign jurisdictions are subject to differing interpretations and are subject to constant change. The Company's interpretation of taxation law as applied to its transactions and activities may not coincide with that of the tax authorities. As a result, transactions may be challenged by tax authorities and the Company's operations may be assessed, which could result in significant additional taxes, penalties and interest. In addition, proposed changes to mining tax regimes in foreign jurisdictions could result in significant additional taxes being payable by the Company, which would have a negative impact on the financial results of Crocodile Gold.

*Litigation*

All industries, including the mining industry, are subject to legal claims, with and without merit. Legal proceedings may arise from time to time in the course of the Company's business. Such litigation may be brought against Crocodile Gold or one or more of its subsidiaries in the future from time to time or the Company or one or more of its subsidiaries may be subject to another form of litigation. Defense and settlement costs of legal claims can be substantial, even with respect to claims that have no merit. The Company has received a letter from a party reserving its right to bring forth a claim against Crocodile Gold in respect of the Company's decision not to acquire certain tenements with the assets of Crocodile Gold. As of the date hereof, no claims have been brought against Crocodile Gold, nor has the Company received an indication that any claims are forthcoming. However, due to the inherent uncertainty of the litigation process, should a claim be brought against the Crocodile Gold, the process of defending such claims could take away from management time and effort and the resolution of any particular legal proceeding to which the Company or one or more of its subsidiaries may become subject could have a material effect on the Crocodile Gold's financial position and results of operations.

*Dependence on Outside Parties*

Crocodile Gold has relied upon consultants, engineers, contractors and others and intends to rely on these parties for exploration, development, construction and operating expertise. Substantial expenditures are required to construct mines, to establish mineral reserves through drilling, to carry out environmental and social impact assessments, to develop metallurgical processes to extract the metal from the ore and, in the case of new properties, to develop the exploration and plant infrastructure at any particular site. If such parties' work is deficient or negligent or is not completed in a timely manner, it could have a material adverse effect on Crocodile Gold.

*Dependence on Key Personnel*

Crocodile Gold is reliant on key personnel it has employed or engaged. Loss of such personnel may have a material adverse impact on the performance of Crocodile Gold. In addition, the recruiting of qualified personnel is critical to the Company's success. As Crocodile Gold's business grows, it will require additional key financial, administrative, mining, marketing and public

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relations personnel as well as additional staff for operations. There is increased competition in the mining industry for qualified skilled personnel, especially in Australia where Crocodile Gold operates. While the Company believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance that Crocodile Gold will be able to acquire or retain the necessary qualified skilled personnel to continue its operations or put its mineral deposits properties into production on terms it considers acceptable.

*Conflicts of Interest*

Certain directors, officers and consultants of Crocodile Gold are, and may continue to be, involved in the mining and mineral exploration industry through their direct and indirect participation in corporations, partnership or joint ventures which are potential competitors of Crocodile Gold. Situations may arise in connection with potential acquisitions in investments where the other interests of these directors may conflict with the interests of Crocodile Gold. Directors of Crocodile Gold with conflicts of interest will be subject to and will follow the procedures set out in applicable corporate and securities legislation, regulations, rules and policies.

**CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures*

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), as appropriate to permit timely decisions regarding public disclosure.

Crocodile Gold's management, including the CEO and CFO, have reviewed and evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in National Instrument 52-109 of the Canadian Securities Administrators) as at December 31, 2010. Based on that evaluation, management has concluded that as of December 31, 2010 the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported, within the appropriate time periods.

*Internal Control over Financial Reporting*

Crocodile Gold's management, including the CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting. Under their supervision, the Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company's internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and acquisitions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with GAAP and that the Company's receipts and expenditures are made only in accordance with authorization of management and the Company's directors; and
- provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual or interim financial statements.

Crocodile Gold's management, including the CEO and CFO, assessed the effectiveness of the Company's internal control over financial reporting. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control (COSO) Framework. Based on that evaluation, management has concluded that, as at December 31, 2010, the Company's internal control over financial reporting was effective to provide a reasonable assurance regarding the reliability of the financial reporting and preparation of the financial statements.

*Changes in internal control over financial reporting*

There has been no changes in the Company's internal control over financial reporting during the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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*Limitations of Controls and Procedures*

Crocodile Gold's management, including the CEO and CFO, believe that disclosure controls and procedures and internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the controls. The design of any control system also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed.

**Cautionary statement regarding forward-looking information**

Except for statements of historical fact relating to Crocodile Gold certain information contained herein constitutes forward-looking information. Forward-looking information includes, but is not limited to, statements with respect to the development potential of the Company's properties; the future price of gold and other minerals; the estimation of mineral reserves and mineral resources; conclusions of economic evaluation; the realization of mineral reserve estimates; the timing and amount of estimated future production; costs of production; capital expenditures; success of exploration activities; mining or processing issues; currency exchange rates; government regulation of mining operations; and environmental risks. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking information is based on the opinions and estimates of management as of the date such statements are made, and they are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Crocodile Gold to be materially different from those expressed or implied by such forward-looking information, including but not limited to risks related to: unexpected events and delays during construction, expansion and start-up; variations in mineral grade and recovery rates; delay or failure to receive government approvals; timing and availability of external financing on acceptable terms; actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of gold and other minerals; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry. Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.

March 28, 2011