



instinct for energy

Q3 2008

QUARTERLY REPORT

HIGHLIGHTS

- Acquired additional lands in key Montney and Rock Creek focus areas.
- Subsequent acquisitions of two private companies. The first acquired company's primary assets are Dawson Montney lands consisting of a 5 section contiguous 100% working interest block of land, 2 wellbores that penetrate the Montney formation on the lands, access to the Doe Creek gas plant, and approximately 50 boepd of producing assets. The primary assets of the second acquired company are a \$9.6 million cash position, approximately 100 boepd of producing assets, and approximately \$20.0 million in tax pools.

FINANCIAL ⁽¹⁾	Three Months Ended September 30, 2008			Nine Months Ended September 30, 2008		
	2008	2007	% Change	2008	2007	% Change
(\$000s, except per share amounts)						
Oil and natural gas sales	13,547	2,587	424	45,739	4,384	943
Funds from operations ⁽¹⁾	7,724	1,156	568	27,144	1,409	1,826
per share - basic and diluted	0.23	0.07	229	0.82	0.12	583
Net earnings (loss)	1,232	(259)	576	5,486	(216)	2,640
per share - basic and diluted	0.04	(0.02)	300	0.17	(0.02)	950
Net capital expenditures	18,144	5,737	216	35,164	9,387	275
Corporate acquisition	-	-	-	-	34,604	(100)
Net working capital (deficiency)				(19,650)	3,848	(611)
Common shares outstanding (000s)						
weighted average - basic	33,045	16,845	96	33,045	11,717	182
weighted average - diluted	33,045	17,059	94	33,045	11,911	177
end of period - basic				33,045	16,845	96
end of period - diluted				38,519	28,331	36

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

OPERATING	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	% Change	2008	2007	% Change
Daily production						
Oil and liquids - (bbls/d)	767	228	236	827	128	546
Natural gas - (mcf/d)	7,438	2,107	253	8,353	1,138	634
Oil equivalent - (boe/d)	2,007	579	247	2,219	318	598
Revenue, net of transportation						
Oil and liquids - (\$/bbl)	107.17	69.20	55	104.92	67.48	55
Natural gas - (\$/mcf)	8.48	5.62	51	9.31	6.26	49
Oil equivalent - (\$/boe)	72.40	47.69	52	74.15	49.64	49
Royalties						
Oil and liquids - (\$/bbl)	26.39	11.71	125	24.46	9.44	159
Natural gas - (\$/mcf)	1.32	0.73	81	1.64	0.98	67
Oil equivalent - (\$/boe)	14.98	7.27	106	15.29	7.31	109
Production expenses						
Oil and liquids - (\$/bbl)	8.01	9.28	(14)	8.26	9.24	(11)
Natural gas - (\$/mcf)	1.85	1.18	57	1.71	1.26	36
Oil equivalent - (\$/boe)	9.90	7.95	25	9.50	8.24	15
Operating netback ⁽¹⁾						
Oil and liquids - (\$/bbl)	72.77	48.21	51	72.20	48.80	48
Natural gas - (\$/mcf)	5.31	3.71	43	5.96	4.02	48
Oil equivalent - (\$/boe)	47.52	32.47	46	49.36	34.09	45
General and administrative expenses - (\$/boe)	4.83	12.12	(60)	4.06	21.30	(81)
Interest expense (income) - (\$/boe)	0.85	(1.37)	(162)	0.66	(3.45)	(119)
Depletion, depreciation, and accretion - (\$/boe)	31.63	26.05	21	31.13	26.25	19
Stock-based compensation - (\$/boe)	1.04	0.53	96	0.85	0.84	1
Future income tax expense (recovery) - (\$/boe)	2.50	-	100	3.64	(8.38)	(143)
Net earnings (loss) - (\$/boe)	6.67	(4.86)	237	9.02	(2.47)	465

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

Management's Discussion and Analysis ("MD&A")

November 6, 2008

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

The MD&A should be read in conjunction with the unaudited interim financial statements for the three and nine months ended September 30, 2008 and the audited annual consolidated financial statements for the year ended December 31, 2007. The unaudited interim financial statements and financial data contained in the MD&A have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP" or "GAAP") in Canadian currency (except where noted as being in another currency).

Additional information related to the Company may be found on the SEDAR website at www.sedar.com.

BOE Conversions

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

Non-GAAP Measures

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

Forward-Looking Information

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

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

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

Crocotta Energy Inc.
Management's Discussion & Analysis
Three and nine months ended September 30, 2008

Summary of Financial Results	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	% Change	2008	2007	% Change
(\$000s, except per share amounts)						
Oil and natural gas sales	13,547	2,587	424	45,739	4,384	943
Funds from operations	7,724	1,156	568	27,144	1,409	1,826
per share - basic and diluted	0.23	0.07	229	0.82	0.12	583
Net earnings (loss)	1,232	(259)	576	5,486	(216)	2,640
per share - basic and diluted	0.04	(0.02)	300	0.17	(0.02)	950
Total assets				161,101	58,399	176
Net working capital (deficiency)				(19,650)	3,848	(611)
Total long-term liabilities				9,119	994	817

Summary of Quarterly Results ⁽¹⁾

	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Number of producing days	92	91	91	92	92	91	90	47
(\$000s, except per share amounts)								
Oil and natural gas sales	13,547	19,255	12,937	9,994	2,587	1,266	532	290
Funds from operations	7,724	11,953	7,467	4,997	1,156	323	(70)	(194)
per share - basic and diluted ⁽²⁾	0.23	0.36	0.23	0.16	0.07	0.03	(0.01)	(0.16)
Net earnings (loss)	1,232	3,446	808	(523)	(259)	(339)	382	(436)
per share - basic and diluted ⁽²⁾	0.04	0.10	0.02	(0.02)	(0.02)	(0.03)	0.05	(0.36)

(1) Crocotta began active oil and natural gas operations on November 15, 2006. Results from oil and natural gas activities for Q4 2006 take into account only the 47-day period from November 15, 2006 to December 31, 2006.

(2) On October 12, 2007, Crocotta's outstanding common shares were consolidated on a three-to-one basis. As such, per share amounts for the comparative periods have been adjusted to reflect the three-to-one consolidation.

General

During the year ended December 31, 2007, Crocotta closed two significant corporate acquisitions that have had a material impact on the Company's operations and financial results in the first nine months of 2008 compared to the first nine months of 2007. On June 8, 2007, Crocotta closed the acquisition of Eastshore Energy Ltd. ("Eastshore") which was producing approximately 500 boe/d at the date of acquisition. On October 12, 2007, Crocotta closed the acquisition of Diamond Tree Energy Ltd. ("Diamond Tree") which added approximately 1,450 boe/d to Crocotta's production base at the date of acquisition.

Production	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	% Change	2008	2007	% Change
Average Daily Production						
Oil and liquids (bbls/d)	767	228	236	827	128	546
Natural gas (mcf/d)	7,438	2,107	253	8,353	1,138	634
Total (boe/d)	2,007	579	247	2,219	318	598

Daily production for the three months ended September 30, 2008 increased 247% to 2,007 boe/d compared to 579 boe/d for the comparative period in 2007. Year-to-date, daily production increased 598% to 2,219 boe/d from 318 boe/d for the nine months ended September 30, 2007. Production increased mainly as a result of the acquisitions of Eastshore and Diamond Tree in Q2 and Q4 2007, which added approximately 500 boe/d and 1,450 boe/d, respectively, at the time of closing of each acquisition and successful drilling efforts during the latter half of 2007 and the first quarter of 2008.

Daily production for the three months ended September 30, 2008 decreased 486 boe/d or 19% to 2,007 boe/d compared to 2,493 boe/d for the three months ended June 30, 2008. Production decreased in Q3 2008 compared to the first half of 2008 as a result of downtime at several of the Company's wells and natural declines from wells brought on stream in late Q1 and early Q2 2008.

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Revenue (\$000s)	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	% Change	2008	2007	% Change
Oil and liquids	7,642	1,472	419	24,079	2,395	905
Natural gas	5,905	1,115	430	21,660	1,989	989
Total revenue	13,547	2,587	424	45,739	4,384	943
Transportation expenses	(185)	(47)	294	(653)	(75)	771
Total revenue, net of transportation	13,362	2,540	426	45,086	4,309	946
Average Sales Price						
Oil and liquids (\$/bbl)	108.36	70.21	54	106.25	68.38	55
Natural gas (\$/mcf)	8.63	5.75	50	9.46	6.40	48
Average sales price (\$/boe)	73.40	48.57	51	75.22	50.51	49
Transportation expenses (\$/boe)	(1.00)	(0.88)	14	(1.07)	(0.87)	23
Average sales price (\$/boe), net	72.40	47.69	52	74.15	49.64	49

Revenue, before transportation, totaled \$13.5 million for the third quarter of 2008, up dramatically from \$2.6 million for the third quarter of 2007. Year-to-date, revenue, before transportation, increased significantly to \$45.7 million in 2008, compared to \$4.4 million in 2007. Revenue increased as a result of the Eastshore and Diamond Tree acquisitions in 2007, successful drilling efforts during the latter half of 2007 and the first quarter of 2008, and a significant increase in oil, NGLs, and natural gas commodity prices in the first nine months of 2008 compared to 2007.

On a per unit basis, revenue, before transportation, increased 51% to \$73.40/boe for the third quarter of 2008 compared to \$48.57/boe for the same period in 2007. Year-to-date, per unit revenue, before transportation, increased 49% to \$75.22/boe compared to \$50.51/boe for the nine months ended September 30, 2007. The increase was the result of a significant increase in oil, NGLs, and natural gas commodity prices in the first nine months of 2008 compared to 2007.

During the first nine months of 2008, the Company sold all its oil, NGLs, and natural gas on the spot market. Future prices received from the sale of the products may fluctuate as the result of market factors. The Company did not hedge any of its oil, NGLs or natural gas production in the first nine months of 2008.

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

Commodity Pricing	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	% Change	2008	2007	% Change
Oil and liquids						
Corporate Price (\$Cdn/bbl)	108.36	70.21	54	106.25	68.38	55
West Texas Intermediate (\$US/bbl)	118.21	75.38	57	113.34	66.10	71
Edmonton Par (\$Cdn/bbl)	122.61	80.70	52	115.86	73.69	57
Natural gas						
Corporate Price (\$Cdn/mcf)	8.63	5.75	50	9.46	6.40	48
AECO Daily Spot Price (\$Cdn/mcf)	7.72	5.17	49	8.63	6.55	32
Exchange Rates						
U.S./Cdn. Dollar Average Exchange Rate	0.9604	0.9567	-	0.9822	0.9070	8

Corporate average oil and NGLs prices were 88.4% and 91.7% of Edmonton Par price for the three and nine months ended September 30, 2008, respectively. Corporate average natural gas prices were 111.8% and 109.6% of AECO Daily Spot price for the three and nine months ended September 30, 2008, respectively. Differences between corporate and benchmark prices can be a result of quality (higher or lower API, higher or lower heat content), sour content, NGLs included in reporting, and various other factors. Crocotta's differences are mainly the result of lower priced NGLs included in oil price reporting and higher heat content natural gas production that is priced higher than AECO Daily Spot. Note that these differences change on a monthly basis depending on demand for each particular product.

Transportation Expenses	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	% Change	2008	2007	% Change
Oil and liquids (\$/bbl)	1.19	1.01	18	1.33	0.90	48
Natural gas (\$/mcf)	0.15	0.13	15	0.15	0.14	7
Total (\$/boe)	1.00	0.88	14	1.07	0.87	23

Transportation expenses are mainly third-party pipeline tariffs incurred to deliver the products to the purchasers at main hubs. Transportation expenses increased as a result of a significant increase in NGLs transportation costs as a result of the Company switching to a higher netback purchaser in the second quarter of 2008.

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Royalties (\$000s)	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	% Change	2008	2007	% Change
Oil and liquids	1,861	245	660	5,543	331	1,575
Natural gas	903	142	536	3,752	304	1,134
Total royalties	2,764	387	614	9,295	635	1,364
Average Royalty Rate (% of sales)						
Oil and liquids	24.4	16.7	46	23.0	13.8	67
Natural gas	15.3	12.7	20	17.3	15.3	13
Average royalty rate	20.4	15.0	36	20.3	14.5	40

Oil, NGLs, and natural gas royalties increased significantly in the three and nine months ended September 30, 2008 from the comparative periods in 2007 mainly as a result of increased revenue from the Eastshore and Diamond Tree acquisitions in Q2 and Q3 2007 and successful drilling efforts during the latter half of 2007 and the first quarter of 2008.

The overall effective royalty rate was 20.4% for the three months ended September 30, 2008, compared to 15.0% for the quarter ended September 30, 2007. Year-to-date, the overall effective royalty rate was 20.3% in 2008 compared to 14.5% in 2007. The increase in the effective royalty rate is a result of higher royalty rates associated with the properties obtained in the Eastshore and Diamond Tree acquisitions in 2007, which are slightly offset by crown royalty holidays on several of the Company's natural gas wells. The low oil and NGLs royalty rate for the three and nine months ended September 30, 2007 was a result of a significant portion of the Company's oil production being on a Crown royalty holiday, which was used up by August 2007. The Company anticipates that the overall effective royalty rate will increase in future periods upon the expiration of the current crown royalty holidays.

Production Expenses	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	% Change	2008	2007	% Change
Oil and liquids (\$/bbl)	8.01	9.28	(14)	8.26	9.24	(11)
Natural gas (\$/mcf)	1.85	1.18	57	1.71	1.26	36
Total (\$/boe)	9.90	7.95	25	9.50	8.24	15

Per unit production expenses for the three and nine months ended September 30, 2008 were \$9.90/boe and \$9.50/boe, respectively, up 25% and 15% from the comparative periods ended September 30, 2007. Per unit production expenses for natural gas were significantly higher in 2008 compared to 2007 as a result of higher per unit production expenses incurred on properties acquired from Eastshore and Diamond Tree in 2007.

Operating Netback	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	% Change	2008	2007	% Change
Oil and liquids (\$/bbl)						
Revenue	108.36	70.21	54	106.25	68.38	55
Royalties	26.39	11.71	125	24.46	9.44	159
Production expenses	8.01	9.28	(14)	8.26	9.24	(11)
Transportation expenses	1.19	1.01	18	1.33	0.90	48
Operating netback	72.77	48.21	51	72.20	48.80	48
Natural gas (\$/mcf)						
Revenue	8.63	5.75	50	9.46	6.40	48
Royalties	1.32	0.73	81	1.64	0.98	67
Production expenses	1.85	1.18	57	1.71	1.26	36
Transportation expenses	0.15	0.13	15	0.15	0.14	7
Operating netback	5.31	3.71	43	5.96	4.02	48
Combined (\$/boe)						
Revenue	73.40	48.57	51	75.22	50.51	49
Royalties	14.98	7.27	106	15.29	7.31	109
Production expenses	9.90	7.95	25	9.50	8.24	15
Transportation expenses	1.00	0.88	14	1.07	0.87	23
Operating netback	47.52	32.47	46	49.36	34.09	45

During the third quarter of 2008, Crocotta generated an operating netback of \$47.52/boe, up 46% from \$32.47/boe for the third quarter of 2007. Year-to-date, the Company generated an operating netback of \$49.36/boe, up 45% from \$34.09/boe for the comparative period in 2007. The increase in the operating netback was a result of a significant increase in oil, NGLs, and natural gas prices, which was partially offset by an increase in royalties, stemming from the higher per unit royalty expenses on the oil and natural gas assets acquired from Eastshore and Diamond Tree during 2007.

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

(\$/boe)	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	% Change	2008	2007	% Change
Operating netback	47.52	32.47	46	49.36	34.09	45
General and administrative expenses	4.83	12.12	(60)	4.06	21.30	(81)
Interest expense (income)	0.85	(1.37)	(162)	0.66	(3.45)	(119)
Depletion, depreciation, and accretion	31.63	26.05	21	31.13	26.25	19
Stock-based compensation	1.04	0.53	96	0.85	0.84	1
Future income tax expense (recovery)	2.50	-	100	3.64	(8.38)	(143)
Net earnings	6.67	(4.86)	237	9.02	(2.47)	465

General and Administrative Expenses (\$000s)	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	% Change	2008	2007	% Change
G&A expenses (gross)	1,105	793	39	3,155	2,246	40
G&A capitalized	(124)	(95)	31	(366)	(296)	24
G&A recoveries	(91)	(52)	75	(322)	(101)	219
G&A expenses (net)	890	646	38	2,467	1,849	33
G&A expenses (\$/boe)	4.83	12.12	(60)	4.06	21.30	(81)

General and administrative expenses ("G&A") decreased to \$4.83/boe for the third quarter of 2008 compared to \$12.12/boe for the quarter ended September 30, 2007. G&A decreased 81% to \$4.06/boe for the nine months ended September 30, 2008 from \$21.30/boe for the nine months ended September 30, 2007. The decrease in G&A on a per unit basis is the result of the significant increase in production in 2008 compared to 2007.

Interest (\$000s)	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	% Change	2008	2007	% Change
Interest expense	156	-	100	412	3	13,633
Interest income	-	(73)	(100)	(11)	(303)	(96)
Net interest expense (income)	156	(73)	314	401	(300)	234
Interest expense (income) (\$/boe)	0.85	(1.37)	162	0.66	(3.45)	119

Interest expense amounts for the first nine months of 2008 relate to interest incurred on amounts drawn from the Company's credit facility, which was used to facilitate the Company's drilling program in the fourth quarter of 2007 and first nine months of 2008. Interest income in the first nine months of 2007 related to interest earned on funds raised through the November 2006 and May 2007 private placement issuances.

Depletion, Depreciation and Accretion	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	% Change	2008	2007	% Change
DD&A (\$000s)	5,839	1,387	321	18,931	2,279	731
DD&A (\$/boe)	31.63	26.05	21	31.13	26.25	19

Depletion, depreciation, and accretion ("DD&A") increased 21% to \$31.63/boe for the quarter ended September 30, 2008 compared to \$26.05/boe for the quarter ended September 30, 2007. Year-to-date, DD&A increased 19% to \$31.13/boe compared to \$26.25 for the comparative period in 2007. The provision for DD&A for the three and nine months ended September 30, 2008 includes \$0.1 million and \$0.3 million, respectively, for accretion of asset retirement obligations and amortization of equipment under capital lease.

The increase in the DD&A rate resulted from a large portion of the reserves acquired from Eastshore and Diamond Tree in 2007 being classified as "probable" (which are not recognized for depletion) as the wells were relatively new. The Company expects the DD&A rate per boe to decrease over time as the reserves acquired from Eastshore and Diamond Tree move from probable to proved due to a longer production history, allowing for a higher confidence in reserve estimates.

Stock-based Compensation	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	% Change	2008	2007	% Change
Stock-based compensation (\$000s)	193	28	589	516	73	607
Stock-based compensation (\$/boe)	1.04	0.53	96	0.85	0.84	1

The Company grants stock options to officers, directors, employees and consultants and calculates the related stock-based compensation using the Black-Scholes option-pricing model. The Company recognizes the expense over the vesting period of the stock options. The increase in stock-based compensation in the first nine months of 2008 compared to the first nine months of 2007 is a result of the issuance of approximately 2.2 million options in the intervening period.

Crocotta Energy Inc.
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Taxes

At September 30, 2008, the Company had approximately \$129.2 million in tax pools, losses, and share issue costs.

	September 30, 2008
(\$000s)	
Canadian oil and gas property expense (COGPE)	13,192
Canadian development expense (CDE)	27,396
Canadian exploration expense (CEE)	59,626
Undepreciated capital costs (UCC)	24,535
Non-capital losses carried forward	1,125
Capital losses carried forward	1,796
Share issue costs	1,535
Total pools, losses, and share issue costs	129,205

Included in the \$129.2 million in tax pools is \$1.8 million in capital losses and \$1.1 million in non-capital losses, against which a valuation allowance is provided, leaving the Company with \$126.3 million of recognized tax pools. During the nine months ended September 30, 2008, the Company had a future income tax expense of \$2.2 million for an effective tax rate of 28.7%, which closely reflects the enacted tax rate of 29.5%.

Funds from Operations

Funds from operations for the three months ended September 30, 2008 was \$7.7 million (\$0.23 per diluted share) compared to \$1.2 million (\$0.07 per diluted share) for the three months ended September 30, 2007. Year-to-date, funds from operations increased to \$27.1 million (\$0.82 per diluted share) from \$1.4 million (\$0.12 per diluted share) for the comparable period in 2007. The dramatic increase is a result of the Eastshore and Diamond Tree acquisitions in 2007, successful drilling efforts during the latter half of 2007 and the first quarter of 2008, and a significant increase in oil, NGLs, and natural gas commodity prices in the first nine months of 2008 compared to 2007.

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

	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	% Change	2008	2007	% Change
Funds from operations (non-GAAP)	7,724	1,156	568	27,144	1,409	1,826
Change in non-cash working capital	1,734	972	78	(312)	1,139	(127)
Cash flow from operating activities (GAAP)	9,458	2,128	344	26,832	2,548	953

Net Earnings

The Company had net earnings of \$1.2 million (\$0.04 per diluted share) for the third quarter of 2008 and year-to-date net earnings of \$5.5 million (\$0.17 per diluted share). Net earnings arose mainly from a significant increase in revenue as a result of an increase in oil, NGLs, and natural gas production during the nine months ended September 30, 2008 and substantial increases in oil, NGLs, and natural gas commodity prices during the same period.

Capital Expenditures

Net capital expenditures for the three and nine months ended September 30, 2008 were \$18.1 million and \$35.2 million, respectively.

(\$000s)	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	% Change	2008	2007	% Change
Land	11,170	3,525	217	13,330	3,553	275
Drilling, completions, and workovers	6,147	1,883	226	20,517	4,411	365
Equipment	242	93	160	4,189	677	519
Geological and geophysical	288	236	22	1,248	746	67
Other	297	-	100	632	-	100
Total exploration and development	18,144	5,737	216	39,916	9,387	325
Property dispositions	-	-	-	4,752	-	100
Net capital expenditures	18,144	5,737	216	35,164	9,387	275

During the quarter, Crocotta drilled 3 (1.9 net) wells, resulting in 1 (1.0 net) gas well and 2 (0.9 net) uneconomical wells. Year-to-date, the Company drilled 8 (5.0 net) wells, resulting in 4 (2.3 net) natural gas wells and 4 (2.7 net) uneconomical wells. One of the successful wells was tied-in during the first quarter of 2008, while the remaining three wells are anticipated to be tied-in during the fourth quarter of 2008. During the quarter the Company acquired approximately 5,000 net acres of Rock Creek land and approximately 4,500 net acres of Montney land expanding its land positions in both key focus areas. Subsequent to September 30, 2008, the Company acquired approximately 6,000 net acres of additional Montney lands through crown land sales and corporate acquisition of Black Bore resources Ltd. The Company has now accumulated over 19,000 net acres of Montney land.

Liquidity and Capital Resources

The Company had a working capital deficiency of \$19.7 million at September 30, 2008 compared to a working capital deficiency of \$11.5 million at December 31, 2007. The change of \$8.2 million was mainly due to \$35.2 million in net capital expenditures which were partially offset by funds from operations of \$27.1 million.

Crocotta Energy Inc.
Management's Discussion & Analysis
Three and nine months ended September 30, 2008

Crocotta has a revolving operating demand loan credit facility available up to \$35.0 million bearing interest at prime plus a range of 0% to 1.50% with a Canadian bank. The credit facility is secured by a \$75 million fixed and floating charge debenture on the assets of the Company. At September 30, 2008, \$19.4 million (December 31, 2007 - \$5.9 million) had been drawn on the credit facility.

On October 31, 2008, the Company acquired all of the issued and outstanding shares of Black Bore Resources Ltd. ("Black Bore"). The aggregate consideration for the transaction is expected to be approximately \$13.0 million, payable through the issuance of approximately 2.7 million common shares, \$2.9 million cash, the assumption of existing debt and working capital estimated to be \$0.9 million and transaction costs of \$0.2 million. The primary assets of Black Bore are Dawson Montney lands consisting of a 5 section contiguous 100% working interest block of land, 2 wellbores that penetrate the Montney formation on the lands, access to the Doe Creek gas plant, and approximately 50 boepd of producing assets.

On November 5, 2008, the Company acquired all of the issued and outstanding shares of a private company ("PrivateCo"). The aggregate consideration for the transaction is expected to be approximately \$11.9 million, payable through the issuance of approximately 4.2 million common shares and transaction costs of approximately \$0.2 million. The primary assets of PrivateCo are a \$9.6 million cash position, approximately 100 boepd of producing assets, and approximately \$20.0 million in tax pools.

The Company intends to dispose of the oil and natural gas properties acquired from PrivateCo (the "Disposition") within 12 months of closing of the business combination. PrivateCo shareholders will receive additional consideration based on the proceeds of the Disposition. Any proceeds of the Disposition received by Crocotta in excess of \$3.0 million will be paid to PrivateCo shareholders as follows:

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

This contingent payment can be satisfied through the issuance of a maximum of 0.9 million additional Crocotta common shares to PrivateCo shareholders. At the Company's discretion, any excess consideration to be paid to PrivateCo shareholders may be paid in cash.

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

The current global financial crisis has reduced the liquidity in financial and capital markets, restricted access to financing and has caused significant volatility in commodity prices. These conditions will present challenges to world economies, to industry participants and to Crocotta. Operating results and management's capital investment decisions will be impacted. However, entities such as Crocotta, which possess strong cash generation from operations, a flexible capital program, low levels of bank debt and associated un-utilized bank credit facilities, are expected to be better positioned to manage through this current market crisis. Crocotta expects to continue to turn adversity into opportunity and emerge stronger from downturns faced by the industry. Crocotta has been diligent in responding to the restricted access to financing by closing its acquisition on November 5, 2008 of a private company whose primary asset was a \$9.6 million cash position that Crocotta will use to further its drilling program, which includes both Montney and Rock Creek horizontal multi-frac wells. Crocotta will continue to pursue strategic opportunities as they arise with a focus on maintaining its strong financial flexibility. At September 30, 2008, Crocotta had in excess of \$15 million of available credit remaining on its credit facility. Crocotta will continue to monitor forecasted debt levels to help ensure that debt covenants are not exceeded and that strong financial flexibility is maintained.

Contractual Obligations

The Company is committed to payments under its revolving operating demand loan credit facility, an operating lease for office space, and a capital lease for a field compression facility as follows:

(\$000s)	Total	Less than 1 year	1 – 3 years	After 3 years
Revolving credit facility	19,366	19,366	-	-
Operating lease	1,923	630	1,164	129
Capital lease	523	261	262	-
Total contractual obligations	21,812	20,257	1,426	129

At December 31, 2007, the Company had an outstanding obligation under flow-through share agreements to spend \$5.0 million. This entire obligation was spent during the first quarter of 2008.

Outstanding Share Data

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

(000s)	September 30, 2008	November 6, 2008
Voting common shares	33,045	39,985
Options	3,070	3,045
Warrants	2,404	2,404
Total	38,519	45,434

Related Party Transactions

During the first nine months of 2008, drilling services were performed for Crocotta by a private company that is partially owned by a director of Crocotta. The total amount of services performed for the Company during the first nine months of 2008 was \$0.9 million. At September 30, 2008, the Company did not have a balance outstanding to the related party.

Critical Accounting Policies

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

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

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

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

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

New Accounting Standards

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

Capital Disclosures

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, *Capital Disclosures*. Section 1535 requires disclosure about the Company's objectives, policies, and processes for managing capital. These disclosures include a description of what the Company manages as capital, the nature of externally imposed capital requirements, how the requirements are incorporated into the Company's management of capital, whether the requirements have been complied with, or consequences of non-compliance, and an explanation of how the Company is meeting its objectives for managing capital. Refer to note 8 to the interim financial statements.

Financial Instruments

Effective January 1, 2008, the Company adopted CICA Handbook Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation*, which replaced Section 3861, *Financial Instruments – Disclosure and Presentation*. Section 3862 outlines the disclosure requirements for financial instruments and non-financial derivatives. Specifically, Section 3862 requires disclosure of the significance of financial instruments on the Company's financial position and how the Company manages the risks associated with financial instruments. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives, which are relatively unchanged from Section 3861. Refer to note 9 to the interim financial statements for the additional disclosures under Section 3862.

International Financial Reporting Standards (IFRS)

The Accounting Standards Board confirmed recently that public companies will be required to report under IFRS effective January 1, 2011. The Company has not completed development of its IFRS changeover plan, which will include project structure and governance, resourcing and training, analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions. The Company hopes to complete its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements, by the end of the third quarter of 2009.

The IASB has issued an exposure draft relating to certain amendments to IFRS 1 in order to make it more useful to Canadian entities adopting IFRS for the first time. One such exemption relating to full cost oil and gas accounting is expected to result in a

reduced administrative transition from the current Canadian AcG-16 to IFRS. This exposure draft will not result in an amended IFRS 1 standard until late in 2009. The amendment will potentially permit the Company to apply IFRS prospectively to their full cost pool, rather than the retrospective assessment of capitalized exploration and development expenses, with the provision that a ceiling test, under IFRS standards, be conducted at the transition date.

Risk Assessment

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

Reserves and Reserve Replacement

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

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

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

Operational Risks

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

Commodity Price Risk

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

Safety and Environmental Risks

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

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Company evaluated its disclosure controls and procedures for the year ended December 31, 2007. The Company's CEO and CFO have concluded that, based on their evaluation, the Company's disclosure controls and procedures are effective to provide reasonable assurance that all material or potentially material information related to the Company is made known to them and is disclosed in a timely manner if required.

Internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. No material changes in the Company's internal controls over financial reporting were identified during the most recent reporting period that have materially affected, or are likely to material affect, the Company's internal controls over financial reporting.

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

Crocotta Energy Inc.**Balance Sheets**

(unaudited)

	As at September 30, 2008	As at December 31, 2007
(\$000s)		
Assets		
Current assets:		
Cash and cash equivalents	-	3,003
Accounts receivable	8,461	8,414
Prepaid expenses and deposits	1,182	1,366
	9,643	12,783
Oil and natural gas properties and equipment (note 3)	151,458	134,848
	161,101	147,631
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	9,696	18,170
Revolving credit facility (note 4)	19,366	5,850
Current portion of capital lease (note 6)	231	218
	29,293	24,238
Asset retirement obligations (note 5)	3,303	3,050
Capital lease (note 6)	257	432
Future income tax liability	5,559	2,014
Shareholders' equity:		
Capital stock (note 7)	118,536	119,838
Contributed surplus	811	203
Retained earnings (deficit)	3,342	(2,144)
	122,689	117,897
Subsequent events (note 12)		
	161,101	147,631

See accompanying notes to the financial statements

Crocotta Energy Inc.**Statements of Operations, Comprehensive Income (Loss), and Retained Earnings (Deficit)**

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
(\$000s, except per share amounts)				
Revenue:				
Oil and natural gas sales	13,547	2,587	45,739	4,384
Transportation expense	(185)	(47)	(653)	(75)
Royalties	(2,764)	(387)	(9,295)	(635)
Interest income	-	73	11	303
	10,598	2,226	35,802	3,977
Expenses:				
Production	1,828	424	5,779	716
General and administrative	890	646	2,467	1,849
Interest expense	156	-	412	3
Depletion, depreciation and accretion	5,839	1,387	18,931	2,279
Stock-based compensation	193	28	516	73
	8,906	2,485	28,105	4,920
Earnings (loss) before income taxes	1,692	(259)	7,697	(943)
Income Taxes:				
Future income tax expense (recovery)	460	-	2,211	(727)
Net earnings (loss) and comprehensive income (loss) for the period	1,232	(259)	5,486	(216)
Retained earnings (deficit), beginning of period	2,110	(1,362)	(2,144)	(1,405)
Retained earnings (deficit), end of period	3,342	(1,621)	3,342	(1,621)
Net earnings (loss) per share:				
Basic and diluted	0.04	(0.02)	0.17	(0.02)

See accompanying notes to the financial statements

Crocotta Energy Inc.
Statements of Cash Flows
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
(\$000s)				
Cash provided by (used in):				
Operating:				
Net earnings (loss)	1,232	(259)	5,486	(216)
Items not affecting cash:				
Depletion, depreciation and accretion	5,839	1,387	18,931	2,279
Stock-based compensation	193	28	516	73
Future income tax expense (recovery)	460	-	2,211	(727)
	7,724	1,156	27,144	1,409
Net change in non-cash working capital (note 10)	1,734	972	(312)	1,139
	9,458	2,128	26,832	2,548
Financing:				
Bank loan	9,912	-	13,516	-
Issuance of capital stock	-	-	-	11,117
Share issue costs	-	(11)	-	(421)
Capital lease payments	(55)	-	(162)	-
	9,857	(11)	13,354	10,696
Investing:				
Purchase and development of oil and natural gas properties and equipment	(18,144)	(5,737)	(39,916)	(9,387)
Disposition of oil and natural gas properties and equipment (note 2)	-	-	4,752	-
Business combination	-	(9)	-	(13,507)
Net change in non-cash investing working capital (note 10)	(1,171)	18	(8,025)	(2,144)
	(19,315)	(5,728)	(43,189)	(25,038)
Change in cash and cash equivalents	-	(3,611)	(3,003)	(11,794)
Cash and cash equivalents, beginning of period	-	7,665	3,003	15,848
Cash and cash equivalents, end of period	-	4,054	-	4,054

See accompanying notes to the financial statements

Crocotta Energy Inc.
Notes to the Financial Statements
Three and nine months ended September 30, 2008

(Tabular amounts in 000s, unless otherwise stated)

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

1. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

The interim financial statements of Crocotta have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim financial statements have been prepared following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended December 31, 2007. The disclosures provided below are incremental to those included with the audited annual consolidated financial statements. The interim financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2007.

b) New accounting standards

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

Capital Disclosures

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, *Capital Disclosures*. Section 1535 requires disclosure about the Company's objectives, policies, and processes for managing capital. These disclosures include a description of what the Company manages as capital, the nature of externally imposed capital requirements, how the requirements are incorporated into the Company's management of capital, whether the requirements have been complied with, or consequences of non-compliance, and an explanation of how the Company is meeting its objectives for managing capital.

Financial Instruments

Effective January 1, 2008, the Company adopted CICA Handbook Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation*, which replaced Section 3861, *Financial Instruments – Disclosure and Presentation*. Section 3862 outlines the disclosure requirements for financial instruments and non-financial derivatives. Specifically, Section 3862 requires disclosure of the significance of financial instruments on the Company's financial position and how the Company manages the risks associated with financial instruments. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives, which are relatively unchanged from Section 3861.

International Financial Reporting Standards (IFRS)

The Accounting Standards Board confirmed recently that public companies will be required to report under IFRS effective January 1, 2011. The Company has not completed development of its IFRS changeover plan, which will include project structure and governance, resourcing and training, analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions. The Company hopes to complete its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements, by the end of the third quarter of 2009.

The IASB has issued an exposure draft relating to certain amendments to IFRS 1 in order to make it more useful to Canadian entities adopting IFRS for the first time. One such exemption relating to full cost oil and gas accounting is expected to result in a reduced administrative transition from the current Canadian AcG-16 to IFRS. This exposure draft will not result in an amended IFRS 1 standard until late in 2009. The amendment will potentially permit the Company to apply IFRS prospectively to their full cost pool, rather than the retrospective assessment of capitalized exploration and development expenses, with the provision that a ceiling test, under IFRS standards, be conducted at the transition date.

2. PROPERTY DISPOSITION

During the first half of 2008, Crocotta sold certain oil and natural gas properties to two unrelated parties for proceeds of approximately \$4.8 million. The following table details the allocation of the proceeds on disposition:

Net assets disposed	Amount
Oil and natural gas properties	4,853
Asset retirement obligation	(101)
	4,752
Proceeds on disposition	
Cash	4,752
	4,752

Crocotta Energy Inc.
Notes to the Financial Statements
Three and nine months ended September 30, 2008

(Tabular amounts in 000s, unless otherwise stated)

3. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT

	September 30, 2008	December 31, 2007
Oil and natural gas properties	177,316	141,990
Equipment under capital lease	763	763
Office and other equipment	321	264
	178,400	143,017
Accumulated depletion and depreciation	(26,942)	(8,169)
Net Book Value	151,458	134,848

As at September 30, 2008, the cost of oil and natural gas properties includes approximately \$27.0 million relating to properties from which there is no production and no reserves assigned and which have been excluded from costs subject to depletion and depreciation. During the three and nine months ended September 30, 2008, the provision for depletion, depreciation and accretion includes \$0.1 million and \$0.3 million, respectively, for accretion of asset retirement obligations and amortization of equipment under capital lease. During the three and nine months ended September 30, 2008, the Company capitalized \$0.1 million and \$0.4 million of general and administrative costs, respectively.

The Company performed an impairment test calculation at September 30, 2008 to assess the recoverable value of the oil and natural gas properties. The oil and natural gas future prices are based on October 1, 2008 commodity price forecasts of the Company's independent reserve evaluators. These prices have been adjusted for commodity price differentials specific to the Company. The following table summarizes the benchmark prices used in the ceiling test calculation. Based on these assumptions, there was no impairment at September 30, 2008.

Year	WTI Oil (\$US/bbl)	Foreign Exchange Rate	Edmonton Light Crude Oil (\$Cdn/bbl)	AECO Gas (\$Cdn/mmbtu)
2009	100.00	1.000	99.10	7.50
2010	100.00	1.000	99.10	7.65
2011	100.00	1.000	99.10	8.00
2012	100.00	1.000	99.10	8.25
2013	100.00	1.000	99.10	8.50
2014	101.35	1.000	100.45	9.00
2015	103.38	1.000	102.48	9.59
2016	105.45	1.000	104.55	9.79
2017	107.56	1.000	106.66	10.01
Escalate				
Thereafter	2.0% per year		2.0% per year	2.0% per year

4. REVOLVING CREDIT FACILITY

The Company has a revolving operating demand loan credit facility available up to \$35.0 million bearing interest at prime plus a range of 0% to 1.50% with a Canadian bank. The credit facility is secured by a \$75 million fixed and floating charge debenture on the assets of the Company. At September 30, 2008, \$19.4 million (December 31, 2007 - \$5.9 million) had been drawn on the credit facility.

5. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from net ownership interests in oil and natural gas properties including well sites, gathering systems, and processing facilities. The Company estimates the total undiscounted amount of cash flows (adjusted for inflation at 2% per year) required to settle its asset retirement obligations is approximately \$8.6 million which is estimated to be incurred between 2008 and 2033. A credit-adjusted risk-free rate of 7% was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	Nine Months Ended September 30, 2008	Year Ended December 31, 2007
Balance, beginning of period	3,050	173
Liabilities disposed through property disposition (note 2)	(101)	-
Liabilities acquired upon Plans of Arrangement	-	2,492
Liabilities incurred in period	197	311
Accretion expense	157	74
Balance, end of period	3,303	3,050

Crocotta Energy Inc.
Notes to the Financial Statements
Three and nine months ended September 30, 2008

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6. CAPITAL LEASE OBLIGATION

The Company has a lease obligation for a field compression facility. The lease obligation has an implicit interest rate of 7.9% and monthly instalments on the lease amount to \$21,766. Security for the lease is the equipment itself and the term of the lease is three years, with a December 2009 expiry.

The following is a reconciliation of combined future repayments:

	Future Minimum Lease Payments	Executory Costs and Imputed Interest	Annual Principal Repayments
2008	65	(9)	56
2009	458	(26)	432
Total	523	(35)	488
Less: Current portion	(261)	30	(231)
	262	(5)	257

7. SHARE CAPITAL

a) Authorized

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

b) Issued and outstanding

	Number	Amount
Voting common shares		
Balance at December 31, 2007	33,045	119,838
Future tax effect of flow-through share renunciation	-	(1,302)
Balance at September 30, 2008	33,045	118,536

During the first quarter of 2008, the Company renounced approximately \$5.0 million in flow-through share obligations, relating to flow-through share issuances in 2007. The \$5.0 million in flow-through share obligations was spent during the first quarter of 2008 on qualified capital expenditures.

c) Warrants

The Company has an arrangement that allows warrants to be issued to directors, officers, and employees. The maximum number of common shares that may be issued, and that have been reserved for issuance under this arrangement, is 2.4 million, representing 24% of the total outstanding common shares and special voting shares as at February 28, 2007. Warrants granted vest over three years and have exercise prices ranging from \$3.75 per share to \$6.75 per share. The Company granted 2.4 million warrants during 2007, as outlined below:

	Number of Warrants	Weighted Average Price (\$)	Exercisable at September 30, 2008	Expiry Date
Warrants				
- issued at \$3.75 per share	747	3.75	249	December 23, 2009
- issued at \$4.05 per share	21	4.05	7	December 23, 2009
- issued at \$4.50 per share	781	4.50	260	December 23, 2009
- issued at \$5.25 per share	54	5.25	18	December 23, 2009
- issued at \$6.00 per share	747	6.00	249	December 23, 2009
- issued at \$6.75 per share	54	6.75	18	December 23, 2009
	2,404	4.80	801	

The fair value of the warrants at the date of issue was determined to be \$nil using the minimum value method as they were issued prior to the Company becoming publicly traded.

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d) Stock options

The Company has authorized and reserved for issuance 3.3 million common shares under a stock option plan enabling certain officers, directors, employees, and consultants to purchase common shares. The Company will not issue options exceeding 10% of the shares outstanding at the time of the option grants. Under the plan, the exercise price of each option shall not be less than the market price of the Company's shares on the date of the grant. The options vest over a period of 3 years and an option's maximum term is 5 years. As at September 30, 2008, 3.1 million options have been granted and are outstanding at prices ranging from \$3.00 to \$3.75 per share with expiry dates ranging from January 23, 2012 to September 11, 2013.

The Company had the following stock options outstanding at September 30, 2008:

	Number of Options	Weighted Average Price (\$)
Balance at December 31, 2007	2,727	3.01
Options granted	366	3.21
Options forfeited	(23)	3.00
Balance at September 30, 2008	3,070	3.03
Exercisable at September 30, 2008	309	3.03

e) Stock-based compensation

The compensation cost recognized during the three and nine months ended September 30, 2008 for the stock option plan was \$0.2 million and \$0.5 million, respectively.

The fair value of each option granted during the three and nine months ended September 30, 2008 was determined using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Weighted average fair value per option	\$1.64	\$1.48
Risk-free rate	3.1%	3.1%
Expected life	4.0 years	4.0 years
Expected volatility	64.0%	56.1%
Dividend yield	-	-

f) Per share information

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

	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Basic and diluted	33,045	33,045

For the three and nine months ended September 30, 2008, all 2.4 million warrants and 3.1 million options were excluded from the diluted per share calculations as the result would be anti-dilutive.

8. CAPITAL DISCLOSURES

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include shareholders' equity, debt, and working capital. To maintain or adjust the capital structure, the Company may, from time to time, issue shares, raise debt, and/or adjust its capital spending to manage its current and projected debt levels.

	September 30, 2008	December 31, 2007
Shareholders' equity	118,536	119,838
Bank debt	19,366	5,850
Working capital (deficiency)	(19,650)	(11,455)

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In addition, management prepares annual, quarterly, and monthly budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment. The annual budget is approved by the Board of Directors.

The Company's share capital is not subject to external restrictions; however, the Company's operating demand loan credit facility includes a covenant requiring the Company to maintain a working capital ratio of not less than one-to-one, as defined by its creditor. The Company was fully compliant with this covenant at September 30, 2008.

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

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

a) Fair value of financial instruments

The Company's financial assets and financial liabilities are comprised of cash and cash equivalents, accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities, capital lease obligations (see note 6), and amounts drawn on the revolving credit facility (see note 4). The fair values of the Company's financial assets and financial liabilities approximate their carrying amount due to the short-term maturity of these instruments.

b) Market Risk

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

Foreign exchange risk

The prices received by the Company for the production of crude oil, natural gas, and NGLs are primarily determined in reference to U.S. dollars, but are settled with the Company in Canadian dollars. The Company's cash flow from commodity sales will therefore be impacted by fluctuations in foreign exchange rates. A \$0.01 increase or decrease in the Canadian/U.S. dollar exchange rate would have impacted net earnings and other comprehensive income by \$0.1 million for the three months ended September 30, 2008 and \$0.3 million for the nine months ended September 30, 2008.

Interest rate risk

The Company is exposed to interest rate risk as it borrows funds at floating interest rates (see note 4). In addition, the Company is exposed to interest rate risk to the Canada Revenue Agency for interest on unexpended funds on the Company's flow-through share obligations. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations. A 1% increase or decrease in interest rates would have impacted net earnings and other comprehensive income by virtually \$nil for the three months ended September 30, 2008 and by \$0.1 million for the nine months ended September 30, 2008.

Commodity price risk

The Company's oil, natural gas, and NGLs production is marketed and sold on the spot market to area aggregators based on daily spot prices that are adjusted for product quality and transportation costs. The Company's cash flow from product sales will therefore be impacted by fluctuations in commodity prices. A \$1.00/boe increase or decrease in commodity prices would have impacted net earnings and other comprehensive income by \$0.1 million for the three months ended September 30, 2008 and \$0.4 million for the nine months ended September 30, 2008.

c) Credit Risk

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

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

The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. At September 30, 2008, there are no material financial assets that the Company considers impaired or past due.

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d) Liquidity Risk

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

The following are the contractual maturities of financial liabilities at September 30, 2008:

Financial Liability	Less than 1 Year	1 to less than 2 Years	Thereafter	Total
Accounts payable and accrued liabilities	9,696	-	-	9,696
Revolving credit facility	19,366	-	-	19,366
Capital lease obligation	261	262	-	523
	29,323	262	-	29,585

10. SUPPLEMENTAL CASH FLOW INFORMATION

a) Net change in non-cash working capital

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Accounts receivable	1,909	479	(47)	(1,644)
Prepaid expenses and deposits	53	43	184	(262)
Accounts payable and accrued liabilities	(1,399)	468	(8,474)	(266)
Non-cash working capital from Plan of Arrangement	-	-	-	1,167
Net change in non-cash working capital	563	990	(8,337)	(1,005)
Relating to:				
Investing	(1,171)	972	(8,025)	1,139
Operating	1,734	18	(312)	(2,144)
Net change in non-cash working capital	563	990	(8,337)	(1,005)

b) Interest and taxes

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Cash interest received	-	72	11	303
Cash interest paid	(156)	-	(412)	(3)
	(156)	72	(401)	300
Cash taxes paid	-	-	-	-

11. RELATED PARTY TRANSACTIONS

During the first nine months of 2008, drilling services were performed for Crocotta by a private company that is partially owned by a director of Crocotta. The total amount of services performed for the Company during the first nine months of 2008 was \$0.9 million. At September 30, 2008, the Company did not have a balance outstanding to the related party.

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12. SUBSEQUENT EVENTS

On October 31, 2008, the Company acquired all of the issued and outstanding shares of Black Bore Resources Ltd. ("Black Bore"). The aggregate consideration for the transaction is expected to be approximately \$13.0 million, payable through the issuance of approximately 2.7 million common shares, \$2.9 million cash, the assumption of existing debt and working capital estimated to be \$0.9 million and transaction costs of \$0.2 million. The primary assets of Black Bore are Dawson Montney lands consisting of a 5 section contiguous 100% working interest block of land, 2 wellbores that penetrate the Montney formation on the lands, access to the Doe Creek gas plant, and approximately 50 boepd of producing assets.

On November 5, 2008, the Company acquired all of the issued and outstanding shares of a private company ("PrivateCo"). The aggregate consideration for the transaction is expected to be approximately \$11.9 million, payable through the issuance of approximately 4.2 million common shares and transaction costs of approximately \$0.2 million. The primary assets of PrivateCo are a \$9.6 million cash position, approximately 100 boepd of producing assets, and approximately \$20.0 million in tax pools.

The Company intends to dispose of the oil and natural gas properties acquired from PrivateCo (the "Disposition") within 12 months of closing of the business combination. PrivateCo shareholders will receive additional consideration based on the proceeds of the Disposition. Any proceeds of the Disposition received by Crocotta in excess of \$3.0 million will be paid to PrivateCo shareholders as follows:

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

This contingent payment can be satisfied through the issuance of a maximum of 0.9 million additional Crocotta common shares to PrivateCo shareholders. At the Company's discretion, any excess consideration to be paid to PrivateCo shareholders may be paid in cash.

Officers And Directors

Robert J. Zakresky, CA

President, CEO & Director

Nolan Chicoine, MPAcc, CA

VP Finance & CFO

Terry L. Trudeau, P.Eng.

VP Operations & COO

Weldon Dueck, BSc., P.Eng.

VP Business Development

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

VP Exploration

Helmut R. Eckert, P.Land

VP Land

Kevin Keith

VP Production

Larry G. Moeller, CA, CBV

Chairman of the Board

Daryl H. Gilbert, P.Eng.

Director

Don Cowie

Director

Brian Krausert

Director

Gary W. Burns

Director

Brian Boulanger

Director

Don D. Copeland, P.Eng.

Director

Bank

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

Transfer Agent

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

Legal Counsel

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

Auditors

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

Independent Engineers

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



Crocotta Energy Inc.

Suite 700, 639 - 5th Avenue SW
Calgary, Alberta T2P 0M9
P 403-538-3737
F 403-538-3735

Robert J. Zakresky, President and CEO

P 403-538-3736

Nolan Chicoine, VP Finance & CFO

P 403-538-3738

For further information, please visit our website at www.crocotta.ca