



Press Release

Q2 2009 Financial and Operating Results

FOR IMMEDIATE RELEASE – August 11, 2009

CROCOTTA ENERGY INC. (TSX – CTA) is pleased to announce its financial and operating results for the three and six months ended June 30, 2009, including financial statements, notes to the financial statements, and Management's Discussion and Analysis. All dollar figures are Canadian dollars unless otherwise noted.

HIGHLIGHTS

- On July 6, 2009, Crocotta announced that it had entered into an amalgamation agreement (the "Amalgamation") to acquire all of the issued and outstanding shares of Salvo Energy Corporation ("Salvo"). Salvo has oil and natural gas assets located in West Central Alberta that currently produce approximately 1,650 boe/d. Consideration for the Amalgamation is estimated to be approximately \$77.5 million, consisting of the issuance of approximately 19.9 million Crocotta common shares and the assumption of approximately \$51.5 million in debt and a working capital deficiency of approximately \$2.6 million. The Amalgamation is expected to close on August 13, 2009.

| FINANCIAL | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|----------------------------|--------|----------|--------------------------|---------|----------|
| | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| (\$000s, except per share amounts) | | | | | | |
| Oil and natural gas sales | 6,358 | 19,255 | (67) | 13,420 | 32,192 | (58) |
| Funds from operations ⁽¹⁾ | 1,884 | 11,953 | (84) | 3,601 | 19,420 | (81) |
| per share - basic and diluted | 0.04 | 0.36 | (89) | 0.08 | 0.59 | (86) |
| Net earnings (loss) | (3,193) | 3,446 | (193) | (6,498) | 4,254 | (253) |
| per share - basic and diluted | (0.07) | 0.10 | (170) | (0.15) | 0.13 | (215) |
| Capital expenditures | 2,246 | 5,803 | (61) | 10,263 | 21,772 | (53) |
| Property acquisitions | - | - | - | 2,442 | - | 100 |
| Property dispositions | (170) | (192) | (11) | (170) | (4,752) | (96) |
| Net debt ⁽²⁾ | | | | 29,878 | 9,170 | 226 |
| Common shares outstanding (000s) | | | | | | |
| weighted average - basic | 43,985 | 33,045 | 33 | 43,985 | 33,045 | 33 |
| weighted average - diluted | 43,985 | 33,045 | 33 | 43,985 | 33,045 | 33 |
| end of period - basic | | | | 43,985 | 33,045 | 33 |
| end of period - diluted | | | | 50,466 | 38,506 | 31 |

(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.

(2) Net debt includes current liabilities (including the revolving credit facility) less current assets.

| OPERATING | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|----------------------------|--------|----------|--------------------------|--------|----------|
| | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| Number of producing days | 91 | 91 | | 181 | 182 | |
| Daily production | | | | | | |
| Oil and liquids - (bbls/d) | 722 | 920 | (22) | 751 | 858 | (12) |
| Natural gas - (mcf/d) | 7,706 | 9,439 | (18) | 7,792 | 8,815 | (12) |
| Oil equivalent - (boe/d @ 6:1) | 2,006 | 2,493 | (20) | 2,050 | 2,327 | (12) |
| Revenue | | | | | | |
| Oil and liquids - (\$/bbl) | 55.62 | 117.43 | (53) | 51.08 | 105.29 | (51) |
| Natural gas - (\$/mcf) | 3.86 | 10.97 | (65) | 4.59 | 9.82 | (53) |
| Oil equivalent - (boe/d @ 6:1) | 34.82 | 84.87 | (59) | 36.17 | 76.02 | (52) |
| Royalties | | | | | | |
| Oil and liquids - (\$/bbl) | 18.91 | 25.84 | (27) | 15.54 | 23.58 | (34) |
| Natural gas - (\$/mcf) | (0.81) | 2.11 | (138) | 0.15 | 1.78 | (92) |
| Oil equivalent - (boe/d @ 6:1) | 3.69 | 17.53 | (79) | 6.26 | 15.42 | (59) |
| Production expenses | | | | | | |
| Oil and liquids - (\$/bbl) | 8.32 | 8.02 | 4 | 8.55 | 8.37 | 2 |
| Natural gas - (\$/mcf) | 2.28 | 1.67 | 37 | 2.17 | 1.65 | 32 |
| Oil equivalent - (boe/d @ 6:1) | 11.76 | 9.28 | 27 | 11.40 | 9.33 | 22 |
| Transportation expenses | | | | | | |
| Oil and liquids - (\$/bbl) | 2.43 | 1.68 | 45 | 1.95 | 1.39 | 40 |
| Natural gas - (\$/mcf) | 0.20 | 0.17 | 18 | 0.18 | 0.16 | 13 |
| Oil equivalent - (boe/d @ 6:1) | 1.65 | 1.25 | 32 | 1.40 | 1.11 | 26 |
| Operating netback⁽¹⁾ | | | | | | |
| Oil and liquids - (\$/bbl) | 25.96 | 81.89 | (68) | 25.04 | 71.95 | (65) |
| Natural gas - (\$/mcf) | 2.19 | 7.02 | (69) | 2.09 | 6.23 | (66) |
| Oil equivalent - (boe/d @ 6:1) | 17.72 | 56.81 | (69) | 17.11 | 50.16 | (66) |
| General and administrative expenses - (\$/boe) | 5.98 | 3.51 | 70 | 6.35 | 3.72 | 71 |
| Interest expense (income) - (\$/boe) | 1.42 | 0.61 | 133 | 1.06 | 0.58 | 83 |
| Depletion, depreciation, and accretion - (\$/boe) | 32.10 | 30.56 | 5 | 31.43 | 30.92 | 2 |
| Stock-based compensation - (\$/boe) | 1.34 | 0.75 | 79 | 1.29 | 0.76 | 70 |
| Future income tax expense (recovery) - (\$/boe) | (5.63) | 6.18 | (191) | (5.50) | 4.13 | (233) |
| Net earnings (loss) - (\$/boe) | (17.49) | 15.20 | (215) | (17.52) | 10.05 | (274) |

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

Operations Update

In Q2/09, Crocotta focused its efforts on acquisitions that would increase its size and future cash flows to allow it to develop its large resource potential in the Montney and other zones that have potential to exploit through horizontal multi-frac technology. In early July, Crocotta announced the acquisition of a private company with 1,650 boepd located primarily in West Central Alberta and with significant potential to apply horizontal multi-frac technology to increase recoveries.

Operationally, Q2/09 was very quiet. Crocotta reduced capital expenditures to maintain \$10 million available credit on its bank credit facility which will be used to help fund the private company acquisition.

Q3/09 will be focused on selling non-strategic properties to reduce debt and increase the concentration of assets into core areas. Once completed, Crocotta will be very well positioned to capitalize on the resource potential it has captured in the Montney, Bluesky, and Cardium.

Natural gas prices have continued to trend lower as demand has been materially affected by the recession combined with increased production caused by record drilling in the US and Canada for 3 years leading up to 2009.

Since the start of 2009, drilling rig utilization has dropped to historical lows as a result of project economics and lack of equity and debt capital to fund projects in the current environment. Currently, natural gas production is dropping on a monthly basis which will put supply and demand back in balance. This supply drop combined with a modest economic recovery could lead to robust prices sometime in 2010.

With large resource plays captured for future exploitation, Crocotta is well positioned to benefit from this recovery.

Management's Discussion and Analysis

August 6, 2009

Crocotta Energy Inc. ("Crocotta" or the "Company") is an oil and natural gas company, actively engaged in the acquisition, development, exploration, and production of oil and natural gas reserves in Western Canada. On November 15, 2006, Crocotta commenced active oil and natural gas operations with the acquisition of certain oil and natural gas properties 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 and notes thereto for the three and six months ended June 30, 2009 and the audited annual financial statements and notes thereto for the year ended December 31, 2008. The unaudited interim financial statements and financial data contained in the MD&A have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian currency (except where noted as being in another currency).

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

BOE Conversions

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

Non-GAAP Measures

This document contains the terms "funds from operations", "funds from operations per share" and "operating netback" which do not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures used by other companies. The Company uses these measures to help evaluate its performance. Management uses funds from operations to analyze performance and considers it a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investments and to repay debt. Funds from operations is a non-GAAP measure and has been defined by the Company as net earnings (loss) plus non-cash items (depletion, depreciation and accretion, stock-based compensation, 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 (loss) per boe under the heading "Operating Netback".

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Management's Discussion & Analysis
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Forward-Looking Information

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

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

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

| Summary of Financial Results | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|-------------------------------------|-----------------------------------|-------------|-----------------|---------------------------------|-------------|-----------------|
| | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| (\$000s, except per share amounts) | | | | | | |
| Oil and natural gas sales | 6,358 | 19,255 | (67) | 13,420 | 32,192 | (58) |
| Funds from operations | 1,884 | 11,953 | (84) | 3,601 | 19,420 | (81) |
| per share - basic and diluted | 0.04 | 0.36 | (89) | 0.08 | 0.59 | (86) |
| Net earnings (loss) | (3,193) | 3,446 | (193) | (6,498) | 4,254 | (253) |
| per share - basic and diluted | (0.07) | 0.10 | (170) | (0.15) | 0.13 | (215) |
| Total assets | | | | 186,681 | 150,571 | 24 |
| Net debt ⁽¹⁾ | | | | 29,878 | 9,170 | 226 |

(1) Net debt includes current liabilities (including the revolving credit facility) less current assets.

Summary of Quarterly Results

| | Q2 2009 | Q1 2009 | Q4 2008 | Q3 2008 | Q2 2008 | Q1 2008 | Q4 2007 | Q3 2007 |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Number of producing days | 91 | 90 | 92 | 92 | 91 | 91 | 92 | 92 |
| (\$000s, except per share amounts) | | | | | | | | |
| Oil and natural gas sales | 6,358 | 7,062 | 8,729 | 13,547 | 19,255 | 12,937 | 9,994 | 2,587 |
| Funds from operations | 1,884 | 1,717 | 3,463 | 7,724 | 11,953 | 7,467 | 4,997 | 1,157 |
| per share - basic and diluted | 0.04 | 0.04 | 0.09 | 0.23 | 0.36 | 0.23 | 0.16 | 0.07 |
| Net earnings (loss) | (3,193) | (3,305) | (2,511) | 1,232 | 3,446 | 808 | (523) | (259) |
| per share - basic and diluted | (0.07) | (0.08) | (0.07) | 0.04 | 0.10 | 0.02 | (0.02) | (0.02) |

Crocotta Energy Inc.
Management's Discussion & Analysis
Three and six months ended June 30, 2009

| Production | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|--------------------------|----------------------------|-------|----------|--------------------------|-------|----------|
| | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| Average Daily Production | | | | | | |
| Oil and NGLs (bbls/d) | 722 | 920 | (22) | 751 | 858 | (12) |
| Natural gas (mcf/d) | 7,706 | 9,439 | (18) | 7,792 | 8,815 | (12) |
| Total (boe/d) | 2,006 | 2,493 | (20) | 2,050 | 2,327 | (12) |

Daily production for the three months ended June 30, 2009 decreased 22% to 2,006 boe/d compared to 2,493 boe/d for the comparative period in 2008. Year-to-date, daily production decreased 12% to 2,050 boe/d from 2,327 boe/d for the six months ended June 30, 2008. The decrease in production was a result of several wells being shut in since August 2008, flush production included in prior period amounts on wells that came on stream at the end of 2007 and during the first half of 2008, and natural declines. Production for the second quarter of 2009 decreased slightly from the first quarter of 2009, averaging 2,006 boe/d compared to 2,094 boe/d, respectively.

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

| Revenue (\$000s) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|------------------------------|----------------------------|--------|----------|--------------------------|--------|----------|
| | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| Oil and NGLs | 3,654 | 9,830 | (63) | 6,945 | 16,437 | (58) |
| Natural gas | 2,704 | 9,425 | (71) | 6,475 | 15,755 | (59) |
| Total revenue | 6,358 | 19,255 | (67) | 13,420 | 32,192 | (58) |
| Average Sales Price | | | | | | |
| Oil and NGLs (\$/bbl) | 55.62 | 117.43 | (53) | 51.08 | 105.29 | (51) |
| Natural gas (\$/mcf) | 3.86 | 10.97 | (65) | 4.59 | 9.82 | (53) |
| Average sales price (\$/boe) | 34.82 | 84.87 | (59) | 36.17 | 76.02 | (52) |

Revenue totaled \$6.4 million for the second quarter of 2009, down significantly from \$19.3 million for the second quarter of 2008. Year-to-date, revenue decreased significantly to \$13.4 million in 2009, compared to \$32.2 million in 2008. The decrease in revenue was due to a significant decrease in oil, NGLs, and natural gas commodity prices in the first half of 2009 compared to the first half of 2008 as well as a decrease in production.

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

| Commodity Pricing | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|--|----------------------------|--------|----------|--------------------------|--------|----------|
| | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| Oil and NGLs | | | | | | |
| Corporate Price (\$Cdn/bbl) | 55.62 | 117.43 | (53) | 51.08 | 105.29 | (51) |
| West Texas Intermediate (\$US/bbl) | 59.51 | 123.95 | (52) | 51.19 | 110.91 | (54) |
| Edmonton Par (\$Cdn/bbl) | 66.16 | 126.38 | (48) | 58.16 | 112.30 | (48) |
| Natural gas | | | | | | |
| Corporate Price (\$Cdn/mcf) | 3.86 | 10.97 | (65) | 4.59 | 9.82 | (53) |
| AECO Daily Spot Price (\$Cdn/mcf) | 3.45 | 10.21 | (66) | 4.20 | 9.09 | (54) |
| Exchange Rates | | | | | | |
| U.S./Cdn. Dollar Average Exchange Rate | 0.8581 | 0.9906 | (13) | 0.8311 | 0.9931 | (16) |

Corporate average oil and NGLs prices were 84.1% and 87.8% of Edmonton Par price for the three and six months ended June 30, 2009, respectively. Corporate average natural gas prices were 111.9% and 109.3% of AECO Daily Spot price for the three and six months ended June 30, 2009, respectively. Differences between corporate and benchmark prices can be a result of quality (higher or lower API, higher or lower heat content), sour content, NGLs included in reporting, and various other factors. Crocotta's differences are mainly the result of lower priced NGLs included in oil price reporting and higher heat content natural gas production that is priced higher than AECO Daily Spot. Note that these differences change on a monthly basis depending on demand for each particular product.

During the period, 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 half of 2009. Subsequent to June 30, 2009, the Company entered into hedges in the form of monthly settled puts ("Floors") as detailed below.

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

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| Royalties (\$000s) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|--|----------------------------|-------|----------|--------------------------|-------|----------|
| | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| Oil and NGLs | 1,242 | 2,163 | (43) | 2,113 | 3,682 | (43) |
| Natural gas | (568) | 1,815 | (131) | 210 | 2,849 | (93) |
| Total royalties | 674 | 3,978 | (83) | 2,323 | 6,531 | (64) |
| Average Royalty Rate (% of sales) | | | | | | |
| Oil and NGLs | 34.0 | 22.0 | 55 | 30.4 | 22.4 | 36 |
| Natural gas | (21.0) | 19.3 | (209) | 3.2 | 18.1 | (82) |
| Average royalty rate | 10.6 | 20.7 | (49) | 17.3 | 20.3 | (15) |

The Company pays royalties to provincial governments (Crown), freeholders, which may be individuals or companies, and other oil and gas companies that own surface or mineral rights. Effective January 1, 2009, the provincial government of Alberta implemented the new Alberta Royalty Framework (the "NRF"). Under the NRF, crown royalties are calculated on a sliding scale based on commodity prices and individual well production rates. Royalty rates can change due to commodity price fluctuations and changes in production volumes on a well-by-well basis, subject to a minimum and maximum rate restriction ascribed by the Crown.

For the three months ended June 30, 2009, oil, NGLs, and natural gas royalties decreased 83% to \$0.7 million compared to \$4.0 million for the comparative period. Year-to-date, oil, NGLs, and natural gas royalties decreased 64% to \$2.4 million compared to \$6.5 million in the prior period. The decrease was a result of a decrease in revenue stemming from a significant decline in oil, NGLs, and natural gas commodity prices and a decrease in production, combined with favorable prior period adjustments to the annual capital cost and processing fee deductions and an increase in the monthly capital cost and processing fee deductions for the remainder of 2009.

The overall effective royalty rate was 10.6% for the three months ended June 30, 2009, compared to 20.7% for the quarter ended June 30, 2008. Year-to-date, the overall effective royalty rate was 17.3% in 2009 compared to 20.3% in 2008. The effective oil and NGLs royalty rates for the three and six months ended June 30, 2009 increased 55% and 36%, respectively, compared to the three and six months ended June 30, 2008 as a result of the implementation of the new Alberta Royalty Framework. The effective natural gas royalty rates for the three and six months ended June 30, 2009 decreased significantly compared to the three and six months ended June 30, 2008 as a result of the significant decline in natural gas commodity prices combined with favorable prior period adjustments to the annual capital cost and processing fee deductions and an increase in the monthly capital cost and processing fee deductions.

| Production Expenses | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|-----------------------|----------------------------|------|----------|--------------------------|------|----------|
| | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| Oil and NGLs (\$/bbl) | 8.32 | 8.02 | 4 | 8.55 | 8.37 | 2 |
| Natural gas (\$/mcf) | 2.28 | 1.67 | 37 | 2.17 | 1.65 | 32 |
| Total (\$/boe) | 11.76 | 9.28 | 27 | 11.40 | 9.33 | 22 |

Per unit production expenses for the three and six months ended June 30, 2009 were \$11.76/boe and \$11.40/boe, respectively, up 27% and 22% from the comparative periods ended June 30, 2008. The increase in per unit production expenses is mainly due to a decrease in production in 2009 compared to 2008. Of note, for the three and six months ended June 30, 2009, production expenses included \$0.1 million (\$0.60/boe) and \$0.3 million (\$0.85/boe), respectively, relating to one-time workover costs.

| Transportation Expenses | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|-------------------------|----------------------------|------|----------|--------------------------|------|----------|
| | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| Oil and NGLs (\$/bbl) | 2.43 | 1.68 | 45 | 1.95 | 1.39 | 40 |
| Natural gas (\$/mcf) | 0.20 | 0.17 | 18 | 0.18 | 0.16 | 13 |
| Total (\$/boe) | 1.65 | 1.25 | 32 | 1.40 | 1.11 | 26 |

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 higher natural gas and NGLs transportation costs incurred on the Dawson Montney well which came on production at the end of Q1 combined with an increase in NGLs transportation costs relating to an adjustment for prior period expenses on one of the Company's wells.

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| Operating Netback | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|--------------------------------|----------------------------|--------|----------|--------------------------|--------|----------|
| | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| Oil and NGLs (\$/bbl) | | | | | | |
| Revenue | 55.62 | 117.43 | (53) | 51.08 | 105.29 | (51) |
| Royalties | 18.91 | 25.84 | (27) | 15.54 | 23.58 | (34) |
| Production expenses | 8.32 | 8.02 | 4 | 8.55 | 8.37 | 2 |
| Transportation expenses | 2.43 | 1.68 | 45 | 1.95 | 1.39 | 40 |
| Operating netback | 25.96 | 81.89 | (68) | 25.04 | 71.95 | (65) |
| Natural gas (\$/mcf) | | | | | | |
| Revenue | 3.86 | 10.97 | (65) | 4.59 | 9.82 | (53) |
| Royalties | (0.81) | 2.11 | (138) | 0.15 | 1.78 | (92) |
| Production expenses | 2.28 | 1.67 | 37 | 2.17 | 1.65 | 32 |
| Transportation expenses | 0.20 | 0.17 | 18 | 0.18 | 0.16 | 13 |
| Operating netback | 2.19 | 7.02 | (69) | 2.09 | 6.23 | (66) |
| Combined (\$/boe) (6:1) | | | | | | |
| Revenue | 34.82 | 84.87 | (59) | 36.17 | 76.02 | (52) |
| Royalties | 3.69 | 17.53 | (79) | 6.26 | 15.42 | (59) |
| Production expenses | 11.76 | 9.28 | 27 | 11.40 | 9.33 | 22 |
| Transportation expenses | 1.65 | 1.25 | 32 | 1.40 | 1.11 | 26 |
| Operating netback | 17.72 | 56.81 | (69) | 17.11 | 50.16 | (66) |

During the second quarter of 2009, Crocotta generated an operating netback of \$17.72/boe, down 69% from \$56.81/boe for the second quarter of 2008. Year-to-date, the Company generated an operating netback of \$17.11/boe, down 66% from \$50.16/boe for the comparative period in 2008. The decrease was mainly due to a significant decline in oil, NGLs, and natural gas commodity prices, which was partially offset by a corresponding decrease in royalties.

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

| (\$/boe) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|--|----------------------------|-------|----------|--------------------------|-------|----------|
| | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| Operating netback | 17.72 | 56.81 | (69) | 17.11 | 50.16 | (66) |
| General and administrative expenses | 5.98 | 3.51 | 70 | 6.35 | 3.72 | 71 |
| Interest expense | 1.42 | 0.61 | 133 | 1.06 | 0.58 | 83 |
| Depletion, depreciation, and accretion | 32.10 | 30.56 | 5 | 31.43 | 30.92 | 2 |
| Stock-based compensation | 1.34 | 0.75 | 79 | 1.29 | 0.76 | 70 |
| Future income tax expense (recovery) | (5.63) | 6.18 | (191) | (5.50) | 4.13 | (233) |
| Net earnings (loss) | (17.49) | 15.20 | (215) | (17.52) | 10.05 | (274) |

| General and Administrative Expenses (\$000s) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|--|----------------------------|-------|----------|--------------------------|-------|----------|
| | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| G&A expenses (gross) | 1,281 | 997 | 28 | 2,862 | 2,050 | 40 |
| G&A capitalized | (171) | (122) | 40 | (398) | (242) | 64 |
| G&A recoveries | (18) | (78) | (77) | (108) | (231) | (53) |
| G&A expenses (net) | 1,092 | 797 | 37 | 2,356 | 1,577 | 49 |
| G&A expenses (\$/boe) | 5.98 | 3.51 | 70 | 6.35 | 3.72 | 71 |

General and administrative expenses ("G&A") increased to \$5.98/boe for the second quarter of 2009 compared to \$3.51/boe for the quarter ended June 30, 2008. G&A increased 71% to \$6.35/boe for the six months ended June 30, 2009 from \$3.72/boe for the six months ended June 30, 2008. The increase was due to higher G&A costs, mainly related to higher employment costs, spread over slightly lower production.

| Interest (\$000s) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---------------------------|----------------------------|------|----------|--------------------------|------|----------|
| | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| Interest expense | 260 | 142 | 83 | 426 | 256 | 66 |
| Interest income | - | (4) | (100) | (33) | (11) | 200 |
| Net interest expense | 260 | 138 | 88 | 393 | 245 | 60 |
| Interest expense (\$/boe) | 1.42 | 0.61 | 133 | 1.06 | 0.58 | 83 |

Interest expense amounts relate mainly to interest incurred on amounts drawn from the Company's credit facility. The increase in interest expense correlates to the increase in amounts drawn on the revolving credit facility.

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| Depletion, Depreciation and Accretion | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---------------------------------------|----------------------------|-------|----------|--------------------------|--------|----------|
| | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| DD&A (\$000s) | 5,861 | 6,933 | (15) | 11,660 | 13,092 | (11) |
| DD&A (\$/boe) | 32.10 | 30.56 | 5 | 31.43 | 30.92 | 2 |

Depletion, depreciation and accretion ("DD&A") increased 5% to \$32.10/boe for the quarter ended June 30, 2009 compared to \$30.56/boe for the quarter ended June 30, 2008. Year-to-date, DD&A increased 2% to \$31.43/boe compared to \$30.92 for the comparative period in 2008. The provision for DD&A for the three and six months ended June 30, 2009 includes \$0.1 million (2008 - \$0.1 million) for accretion of asset retirement obligations and \$0.1 million (2008 - \$0.1 million) for the amortization of equipment under capital lease.

| Stock-based Compensation | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|-----------------------------------|----------------------------|------|----------|--------------------------|------|----------|
| | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| Stock-based compensation (\$000s) | 245 | 171 | 43 | 478 | 323 | 48 |
| Stock-based compensation (\$/boe) | 1.34 | 0.75 | 79 | 1.29 | 0.76 | 70 |

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 2009 compared to 2008 is a result of the issuance of 1.0 million stock options in January 2009.

Taxes

At June 30, 2009, the Company had approximately \$169.8 million in effective tax pools, losses, and share issue costs.

| | June 30, 2009 | June 30, 2008 | % Change |
|---|---------------|---------------|----------|
| (\$000s) | | | |
| Canadian oil and gas property expense (COGPE) | 18,302 | 3,126 | 485 |
| Canadian development expense (CDE) | 39,349 | 27,251 | 44 |
| Canadian exploration expense (CEE) | 71,970 | 57,874 | 24 |
| Undepreciated capital costs (UCC) | 28,385 | 25,685 | 11 |
| Non-capital losses carried forward | 15,270 | 1,418 | 977 |
| Capital losses carried forward | 1,796 | 1,796 | - |
| Share issue costs | 1,871 | 1,822 | 3 |
| Valuation allowance | (7,121) | - | 100 |
| Total pools, losses, and share issue costs | 169,822 | 118,972 | 43 |

Funds from Operations

Funds from operations for the three months ended June 30, 2009 was \$1.9 million (\$0.04 per diluted share) compared to \$12.0 million (\$0.36 per diluted share) for the three months ended June 30, 2008. Year-to-date, funds from operations was \$3.6 million (\$0.04 per diluted share) in 2009 compared to \$19.4 million (\$0.59 per diluted share) in 2008. The decrease was a result of significantly lower oil, NGLs, and natural gas commodity prices in the first half of 2009 compared to the first half of 2008.

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

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|--|----------------------------|--------|----------|--------------------------|---------|----------|
| | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| Funds from operations (non-GAAP) | 1,884 | 11,953 | (84) | 3,601 | 19,420 | (81) |
| Change in non-cash working capital | 114 | (771) | (115) | (65) | (2,038) | (97) |
| Cash flow from operating activities (GAAP) | 1,998 | 11,182 | (82) | 3,536 | 17,382 | (80) |

Net Earnings (Loss)

The Company had a net loss of \$3.2 million (\$0.07 per diluted share) for the three months ended June 30, 2009 compared to net earnings of \$3.4 million (\$0.10 per diluted share) for the three months ended June 30, 2008. Year-to-date, the Company had a net loss of \$6.5 million (\$0.15 per diluted share) in 2009 compared to net earnings of \$4.3 million (\$0.13 per diluted share) in 2008. The net loss arose mainly as a result of a significant decrease in revenue due to a significant decrease in commodity prices and a decrease in production.

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Capital Expenditures

Net capital expenditures for the three and six months ended June 30, 2009 were \$2.1 million and \$12.5 million, respectively, compared to \$5.6 million and \$17.0 million for the three and six months ended June 30, 2008, respectively.

| (\$000s) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|--|----------------------------|-------|----------|--------------------------|---------|----------|
| | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| Land | 178 | 1,163 | (85) | 858 | 2,160 | (60) |
| Drilling, completions, and workovers | 1,219 | 3,017 | (60) | 6,501 | 14,370 | (55) |
| Equipment | 620 | 717 | (14) | 2,350 | 3,947 | (40) |
| Geological and geophysical | 224 | 644 | (65) | 535 | 960 | (44) |
| Other | 5 | 262 | (98) | 19 | 335 | (94) |
| Total exploration and development | 2,246 | 5,803 | (61) | 10,263 | 21,772 | (53) |
| Property acquisitions | - | - | - | 2,442 | - | 100 |
| Property dispositions | (170) | (192) | (11) | (170) | (4,752) | (96) |
| Net property acquisitions (dispositions) | (170) | (192) | (11) | 2,272 | (4,752) | 148 |
| Total capital expenditures | 2,076 | 5,611 | (63) | 12,535 | 17,020 | (26) |

During the first six months of 2009, Crocotta drilled 1 (0.5 net) well, which was uneconomical. During the first half of 2009, Crocotta also completed and tied-in its successful 100% working interest Montney horizontal well in the Dawson area of northeast British Columbia, which was drilled in the fourth quarter of 2008. Crocotta also tied in 3 (2.2 net) gas wells in the Smoky area of Alberta during Q1 2009.

Liquidity and Capital Resources

The Company had net debt of \$29.9 million at June 30, 2009 compared to net debt of \$20.9 million at December 31, 2008. The change of \$9.0 million was mainly due to \$12.5 million in net capital expenditures, which were offset by funds from operations of \$3.6 million.

Crocotta has total credit facilities of \$46.0 million with a Canadian chartered bank. This is comprised of a revolving operating demand loan credit facility of up to \$40.0 million bearing interest at prime plus a range of 0.25% to 2.50% and a \$6.0 million non-revolving acquisition/development demand loan facility bearing interest at prime plus a range of 0.75% to 3.00%. The credit facility is secured by a \$75 million fixed and floating charge debenture on the assets of the Company. The next review of the credit facilities by the bank is scheduled on or before September 30, 2009. At June 30, 2009, \$31.1 million (December 31, 2008 – \$15.7 million) had been drawn on the credit facility.

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. Crocotta's capital program is flexible, with the only commitments for the remainder of 2009 being \$2.4 million in capital expenditures remaining from the \$9.0 million December 2008 flow-through share issuance. At June 30, 2009, Crocotta had approximately \$14.9 million of available credit remaining on its credit facilities. Crocotta will continue to monitor forecasted debt levels to help ensure that debt covenants are not exceeded and that strong financial flexibility is maintained.

On July 6, 2009, the Company announced that it had entered into an amalgamation agreement (the "Amalgamation") to acquire all of the issued and outstanding shares of Salvo Energy Corporation ("Salvo"). Consideration for the Amalgamation is estimated to be approximately \$77.5 million, consisting of the issuance of approximately 19.9 million Crocotta common shares and the assumption of a working capital deficiency of approximately \$2.6 million and approximately \$51.5 million in debt, including \$37.0 million in debt incurred on the July 31, 2009 asset acquisition by Salvo, as described below. The Amalgamation is expected to close on August 13, 2009.

On July 31, 2009, Salvo closed the acquisition of certain oil and natural gas assets from an Alberta-based company ("AlbertaCo") for net cash consideration of \$37.0 million. The acquisition was financed through a new secured bridge loan facility and an increase to Crocotta's revolving operating demand loan credit facility with its current lender, as described below.

In conjunction with the Amalgamation, Crocotta obtained an increase in its revolving operating demand loan credit facility to \$60.0 million bearing interest at prime plus a range of 0.25% to 3.25%. The security on the facility was increased to a supplemental \$125 million fixed and floating charge debenture on the assets of the Company. The security also contains a \$125 million first position guarantee of Crocotta from any subsidiary of Crocotta or Salvo holding the assets acquired from AlbertaCo and a second position guarantee of Crocotta from Salvo.

Crocotta also obtained a \$25.0 million secured bridge facility. This bridge facility bears interest at 8% and is secured by a first position security charge on Salvo and a second position security charge on Crocotta or any subsidiary of Crocotta or Salvo holding the assets acquired from AlbertaCo. The maturity date on this bridge facility is December 31, 2009.

As a result of the Amalgamation, Crocotta will have net debt of approximately \$84.0 million, which includes the secured bridge facility noted above. Crocotta currently does not have the funds to repay the bridge facility. Crocotta has identified and initiated a sales process of non-strategic properties totalling approximately 1,000 boepd. Crocotta will use its best efforts to sell a minimum of 500 boepd prior to December 31, 2009 to raise sufficient funds to repay the bridge facility and allow for future cash flow to be used for capital programs in core areas. Other options to repay the bridge facility include raising equity, reducing capital spending, and renegotiating credit and bridge facilities. Although Management of Crocotta believes it can repay the bridge facility before its maturity date, there is no assurance that this will happen.

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Contractual Obligations

The Company is committed to payments under an operating lease for office space, a capital lease for a field compression facility, and obligations under flow-through share agreements as follows:

| (\$000s) | Total | Less than 1 year | 1 – 3 years | After 3 years |
|-------------------------------|--------|------------------|-------------|---------------|
| Revolving credit facility | 31,093 | 31,093 | - | - |
| Operating lease | 2,577 | 914 | 1,416 | 247 |
| Capital lease | 317 | 317 | - | - |
| Flow-through commitment | 2,406 | 2,406 | - | - |
| Total contractual obligations | 36,393 | 34,730 | 1,416 | 247 |

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) | June 30, 2009 | August 6, 2009 |
|----------------------|---------------|----------------|
| Voting common shares | 43,985 | 43,985 |
| Options | 4,077 | 4,077 |
| Warrants | 2,404 | 2,404 |
| Total | 50,466 | 50,466 |

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.

Goodwill

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

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. The IASB is proposing additional optional exemptions, one of which relates to full cost oil and gas accounting, resulting in a reduced administrative transition from the current Canadian full cost accounting for oil and gas activities to IFRS. The exemption would permit the Company to measure exploration and evaluation assets under IFRS at the carrying amount determined under GAAP at the date of transition to IFRS. In addition, the carrying amount under GAAP of production or development assets could be allocated on a pro rata basis to the underlying assets using either reserve volumes or reserve values at the transition date. The assets to which this exemption is applied would be required to be tested for impairment at the date of transition under IFRS standards.

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, 2008. The Company's CEO and CFO have concluded that, based on their evaluation, the Company's disclosure controls and procedures are effective to provide reasonable assurance that all material or potentially material information related to the Company is made known to them and is disclosed in a timely manner if required.

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

The Company evaluated the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. The Company's CEO and CFO have concluded that, based on their evaluation, the Company's internal control over financial reporting was effective as of December 31, 2008. 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 June 30, 2009 | As at December 31, 2008 |
|---|------------------------|----------------------------|
| <hr/> | | |
| (\$000s) | | |
| <hr/> | | |
| Assets | | |
| Current assets: | | |
| Accounts receivable | 3,848 | 5,982 |
| Prepaid expenses and deposits | 1,145 | 1,452 |
| | 4,993 | 7,434 |
| | | |
| Oil and natural gas properties and equipment (note 2) | 181,688 | 180,553 |
| | | |
| | 186,681 | 187,987 |
| <hr/> | | |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | 3,461 | 12,296 |
| Revolving credit facility (note 3) | 31,093 | 15,650 |
| Current portion of capital lease (note 4) | 317 | 432 |
| | 34,871 | 28,378 |
| | | |
| Asset retirement obligations (note 5) | 4,286 | 4,158 |
| Deferred gain | 7,431 | 7,431 |
| Future income tax liability | 1,867 | 1,595 |
| | | |
| Shareholders' equity: | | |
| Capital stock (note 6) | 142,315 | 144,593 |
| Contributed surplus (note 6(c)) | 1,579 | 1,002 |
| Retained earnings (deficit) | (5,668) | 830 |
| | 138,226 | 146,425 |
| | | |
| Subsequent events (note 9) | | |
| | 186,681 | 187,987 |
| <hr/> | | |

See accompanying notes to the financial statements

Approved by the Board of Directors:

Director, "signed" Rob Zakresky

Director, "signed" Larry Moeller

The interim financial statements of the Company have not been reviewed by the Company's auditors.

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

(unaudited)

| | Three months ended June 30, | | Six months ended June 30, | |
|--|-----------------------------|---------|---------------------------|---------|
| | 2009 | 2008 | 2009 | 2008 |
| (\$000s, except per share amounts) | | | | |
| Revenue: | | | | |
| Oil and natural gas sales | 6,358 | 19,255 | 13,420 | 32,192 |
| Royalties | (674) | (3,978) | (2,323) | (6,531) |
| Interest income | - | 4 | - | 11 |
| | 5,684 | 15,281 | 11,097 | 25,672 |
| Expenses: | | | | |
| Production | 2,147 | 2,106 | 4,228 | 3,951 |
| Transportation | 301 | 283 | 519 | 468 |
| General and administrative | 1,092 | 797 | 2,356 | 1,577 |
| Interest expense | 260 | 142 | 393 | 256 |
| Depletion, depreciation and accretion | 5,861 | 6,933 | 11,660 | 13,092 |
| Stock-based compensation | 245 | 171 | 478 | 323 |
| | 9,906 | 10,432 | 19,634 | 19,667 |
| Earnings (loss) before income taxes | (4,222) | 4,849 | (8,537) | 6,005 |
| Income Taxes: | | | | |
| Future income tax expense (recovery) | (1,029) | 1,403 | (2,039) | 1,751 |
| Net earnings (loss) and comprehensive earnings (loss) for the period | (3,193) | 3,446 | (6,498) | 4,254 |
| Retained earnings (deficit), beginning of period | (2,475) | (1,336) | 830 | (2,144) |
| Retained earnings (deficit), end of period | (5,668) | 2,110 | (5,668) | 2,110 |
| Net earnings (loss) per share: | | | | |
| Basic and diluted | (0.07) | 0.10 | (0.15) | 0.13 |

See accompanying notes to the financial statements

Crocotta Energy Inc.
Statements of Cash Flows
(unaudited)

| | Three months ended June 30, | | Six months ended June 30, | |
|--|-----------------------------|----------|---------------------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| (\$000s) | | | | |
| Cash provided by (used in): | | | | |
| Operating: | | | | |
| Net earnings (loss) | (3,193) | 3,446 | (6,498) | 4,254 |
| Items not affecting cash: | | | | |
| Depletion, depreciation and accretion | 5,861 | 6,933 | 11,660 | 13,092 |
| Stock-based compensation | 245 | 171 | 478 | 323 |
| Future income tax expense (recovery) | (1,029) | 1,403 | (2,039) | 1,751 |
| | 1,884 | 11,953 | 3,601 | 19,420 |
| Net change in non-cash working capital | 114 | (771) | (65) | (2,038) |
| | 1,998 | 11,182 | 3,536 | 17,382 |
| Financing: | | | | |
| Bank loan | 38 | (1,246) | 15,443 | 3,604 |
| Capital lease payments | (58) | (58) | (115) | (115) |
| | (20) | (1,304) | 15,328 | 3,489 |
| Investing: | | | | |
| Purchase and development of oil and natural gas properties and equipment | (2,246) | (5,803) | (12,705) | (21,772) |
| Disposition of oil and natural gas properties and equipment | 170 | 192 | 170 | 4,752 |
| Net change in non-cash investing working capital | 98 | (5,419) | (6,329) | (6,854) |
| | (1,978) | (11,030) | (18,864) | (23,874) |
| Change in cash and cash equivalents | - | (1,152) | - | (3,003) |
| Cash and cash equivalents, beginning of period | - | 1,152 | - | 3,003 |
| Cash and cash equivalents, end of period | - | - | - | - |

See accompanying notes to the financial statements

Crocotta Energy Inc.
Notes to the Financial Statements
Three and six months ended June 30, 2009

(Tabular amounts in 000s, unless otherwise stated)

Crocotta Energy Inc. ("Crocotta" or the "Company") is an oil and natural gas company actively engaged in the acquisition, development, exploration, and production of oil and natural gas reserves in Western Canada. On November 15, 2006, Crocotta commenced active oil and natural gas operations with the acquisition of certain oil and natural gas properties 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 Canadian generally accepted accounting principles ("GAAP"). The interim financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the year ended December 31, 2008. The disclosures provided below are incremental to those included with the audited annual financial statements. The interim financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2008.

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.

Goodwill

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

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. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT

| | June 30, 2009 | December 31, 2008 |
|--|-----------------|-------------------|
| Oil and natural gas properties | 224,819 | 212,185 |
| Equipment under capital lease | 763 | 763 |
| Office and other equipment | 347 | 329 |
| | 225,929 | 213,277 |
| Accumulated depletion and depreciation | (44,241) | (32,724) |
| Net Book Value | 181,688 | 180,553 |

As at June 30, 2009, the cost of oil and natural gas properties includes approximately \$36.9 million (December 31, 2008 – \$38.0 million) relating to properties from which there is no production and no reserves assigned and which have been excluded from costs subject to depletion and depreciation. During the three and six months ended June 30, 2009, the provision for depletion, depreciation and accretion includes \$0.1 million (2008 – \$0.1 million) and \$0.1 million (2008 - \$0.1 million), respectively, for accretion of asset retirement obligations and \$0.1 million (2008 – \$0.1 million) and \$0.1 million (2008 - \$0.1 million), respectively, for amortization of equipment under capital lease. During the three and six months ended June 30, 2009, the Company capitalized \$0.2 million (2008 – \$0.1 million) and \$0.4 million (2008 - \$0.2 million), respectively, of general and administrative costs and \$0.1 million (2008 - \$0.1 million) and \$0.1 million (2008 - \$0.1 million), respectively, of stock-based compensation.

The Company performed an impairment test calculation at June 30, 2009 to assess the recoverable value of the oil and natural gas properties. The oil and natural gas future prices are based on July 1, 2009 commodity price forecasts of the Company's independent reserve evaluators. These prices have been adjusted for commodity price differentials specific to the Company. The following table summarizes the benchmark prices used in the impairment test calculation. Based on these assumptions, there was no impairment at June 30, 2009.

Crocotta Energy Inc.
Notes to the Financial Statements
Three and six months ended June 30, 2009

(Tabular amounts in 000s, unless otherwise stated)

| Year | WTI Oil (\$US/bbl) | Foreign Exchange Rate | Edmonton Light Crude Oil (\$Cdn/bbl) | AECO Gas (\$Cdn/mmbtu) |
|------------------------|-----------------------|-----------------------------|--|---------------------------|
| 2009 | 70.00 | 0.870 | 79.43 | 4.54 |
| 2010 | 72.00 | 0.870 | 81.72 | 6.32 |
| 2011 | 75.00 | 0.880 | 84.20 | 7.16 |
| 2012 | 80.00 | 0.900 | 87.89 | 7.56 |
| 2013 | 85.00 | 0.920 | 91.41 | 7.93 |
| 2014 | 93.85 | 0.950 | 97.84 | 8.47 |
| 2015 | 95.73 | 0.950 | 99.82 | 8.75 |
| 2016 | 97.64 | 0.950 | 101.83 | 8.94 |
| 2017 | 99.59 | 0.950 | 103.89 | 9.13 |
| 2018 | 101.59 | 0.950 | 105.99 | 9.33 |
| Escalate Thereafter | 2.0% per year | | 2.0% per year | 2.0% per year |

3. REVOLVING CREDIT FACILITY

The Company has total credit facilities of \$46.0 million with a Canadian chartered bank. This is comprised of a revolving operating demand loan credit facility of up to \$40.0 million bearing interest at prime plus a range of 0.25% to 2.50% and a \$6.0 million non-revolving acquisition/development demand loan facility bearing interest at prime plus a range of 0.75% to 3.00%. The credit facility is secured by a \$75 million fixed and floating charge debenture on the assets of the Company. The next review of the credit facilities by the bank is scheduled on or before September 30, 2009. At June 30, 2009, \$31.1 million (December 31, 2008 – \$15.7 million) had been drawn on the credit facility.

4. 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 annual repayments:

| | Future Minimum Lease Payments | Executory Costs and Imputed Interest | Annual Principal Repayments |
|------------------------|----------------------------------|---|--------------------------------|
| 2009 – current portion | 327 | (10) | 317 |
| Total | 327 | (10) | 317 |

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 \$11.1 million which is estimated to be incurred between 2009 and 2034. 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:

| | Six Months Ended June 30, 2009 | Year Ended December 31, 2008 |
|--|-----------------------------------|---------------------------------|
| Balance, beginning of period | 4,158 | 3,050 |
| Liabilities acquired upon Plans of Arrangement | - | 884 |
| Liabilities incurred in period | 42 | 269 |
| Liabilities disposed through property dispositions | (57) | (229) |
| Liabilities settled in period | - | (36) |
| Accretion expense | 143 | 220 |
| Balance, end of period | 4,286 | 4,158 |

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(Tabular amounts in 000s, unless otherwise stated)

6. 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, 2008 | 43,985 | 144,593 |
| Future tax effect of flow-through share renunciation | - | (2,278) |
| Balance at June 30, 2009 | 43,985 | 142,315 |

During the first quarter of 2009, the Company renounced \$9.0 million in flow-through share obligations, relating to flow-through share issuances in December 2008. At June 30, 2009, \$6.6 million in flow-through share obligations had been spent on qualified capital expenditures.

c) Contributed surplus

| | Six Months Ended June 30, 2009 | Year Ended December 31, 2008 |
|------------------------------|-----------------------------------|---------------------------------|
| Balance, beginning of period | 1,002 | 203 |
| Stock-based compensation | 577 | 799 |
| Balance, end of period | 1,579 | 1,002 |

d) Warrants

The Company has an arrangement that allows warrants to be issued to directors, officers, and employees. The maximum number of common shares that may be issued, and that have been reserved for issuance under this arrangement, is 2.4 million. Warrants granted vest over three years and have exercise prices ranging from \$3.75 per share to \$6.75 per share.

During the year ended December 31, 2007, the Company issued 2.4 million warrants (all remain outstanding) as outlined below:

| | Number of Warrants | Weighted Average Price (\$) | Exercisable at June 30, 2008 | Expiry Date |
|------------------------------|-----------------------|-----------------------------------|---------------------------------|-------------------|
| Warrants | | | | |
| - issued at \$3.75 per share | 747 | 3.75 | 249 | December 23, 2012 |
| - issued at \$4.05 per share | 21 | 4.05 | 7 | December 23, 2012 |
| - issued at \$4.50 per share | 781 | 4.50 | 260 | December 23, 2012 |
| - issued at \$5.25 per share | 54 | 5.25 | 18 | December 23, 2012 |
| - issued at \$6.00 per share | 747 | 6.00 | 249 | December 23, 2012 |
| - issued at \$6.75 per share | 54 | 6.75 | 18 | December 23, 2012 |
| | 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.

At the annual and special meeting of shareholders held on May 5, 2009, approval was obtained to extend the expiry date of the outstanding performance warrants to December 23, 2012.

Crocotta Energy Inc.
Notes to the Financial Statements
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(Tabular amounts in 000s, unless otherwise stated)

e) Stock options

The Company has authorized and reserved for issuance 4.4 million common shares under a stock option plan enabling certain officers, directors, employees, and consultants to purchase common shares. The Company will not issue options exceeding 10% of the shares outstanding at the time of the option grants. Under the plan, the exercise price of each option equals the market price of the Company's shares on the date of the grant. The options vest over a period of 3 years and an option's maximum term is 5 years. As at June 30, 2009, 4.1 million options have been granted and are outstanding at prices ranging from \$1.26 to \$3.75 per share with expiry dates ranging from January 23, 2012 to January 14, 2014.

The Company had the following stock options outstanding at June 30, 2009:

| | Number of Options | Weighted Average Price (\$) |
|------------------------------|----------------------|-----------------------------------|
| Balance at December 31, 2008 | 3,045 | 3.00 |
| Options granted | 1,032 | 1.27 |
| Balance at June 30, 2009 | 4,077 | 2.56 |
| Exercisable at June 30, 2009 | 1,876 | 3.02 |

f) Stock-based compensation

The compensation cost charged to earnings during the three and six months ended June 30, 2009 for the stock option plan was \$0.2 million (2008 - \$0.2 million) and \$0.5 million (2008 - \$0.3 million), respectively.

The Company did not grant any options during the three months ended June 30, 2009. The fair value of each option granted during the six months ended June 30, 2009 was determined using the Black-Scholes option-pricing model with the following assumptions:

| | Six Months Ended June 30, 2009 |
|-----------------------|-----------------------------------|
| Fair value per option | \$0.86 |
| Risk-free rate | 1.4% |
| Expected life | 4.0 years |
| Expected volatility | 96.8% |
| Dividend yield | - |

g) Per share information

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

| | Three Months Ended June 30, 2009 | Six Months Ended June 30, 2009 |
|-------------------|-------------------------------------|-----------------------------------|
| Basic and diluted | 43,985 | 43,985 |

7. CAPITAL DISCLOSURES

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

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

| | June 30, 2009 | December 31, 2008 |
|----------------------|---------------|-------------------|
| Shareholders' equity | 138,226 | 146,425 |
| Net debt | 29,878 | 20,944 |

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

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(Tabular amounts in 000s, unless otherwise stated)

The Company's share capital is not subject to external restrictions; however, the Company's revolving operating demand loan credit facility includes a covenant requiring the Company to maintain a working capital ratio of not less than one-to-one. The working capital ratio, as defined by its creditor, is calculated as current assets plus any undrawn amounts available on its credit facilities less current liabilities excluding any current portion drawn on the credit facility. The Company was fully compliant with this covenant at June 30, 2009.

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

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

a) Fair value of financial instruments

The Company's financial assets and financial liabilities are comprised of cash and cash equivalents, accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities, capital lease obligations (note 4), and amounts drawn on the revolving credit facility (note 3). The fair values of the Company's financial assets and financial liabilities approximate their carrying amount due to the short-term maturity of these instruments.

b) Market risk

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

Foreign exchange risk

The prices received by the Company for the production of crude oil, natural gas, and NGLs are primarily determined in reference to U.S. dollars, but are settled with the Company in Canadian dollars. The Company's cash flow from commodity sales will therefore be impacted by fluctuations in foreign exchange rates. A \$0.01 increase or decrease in the Canadian/U.S. dollar exchange rate would have impacted net earnings and other comprehensive income by approximately \$0.1 million for the three months ended June 30, 2009 and \$0.1 million for the six months ended June 30, 2009.

Interest rate risk

The Company is exposed to interest rate risk as it borrows funds at floating interest rates (note 3). In addition, the Company is exposed to interest rate risk to the Canada Revenue Agency for interest on unexpended funds on the Company's flow-through share obligations. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations. A 100 basis point increase or decrease in interest rates would have impacted net earnings and other comprehensive income by approximately \$0.1 million for the three months ended June 30, 2009 and \$0.1 for the six months ended June 30, 2009.

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 approximately \$0.1 million for the three months ended June 30, 2009 and \$0.2 million for the six months ended June 30, 2009.

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 June 30, 2009, there are no material financial assets that the Company considers impaired.

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(Tabular amounts in 000s, unless otherwise stated)

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 June 30, 2009:

| Financial Liability | Less than 1 Year | 1 to less than 2 Years | Thereafter | Total |
|--|-----------------------------|-----------------------------------|-------------------|---------------|
| Accounts payable and accrued liabilities | 3,461 | - | - | 3,461 |
| Revolving credit facility | 31,093 | - | - | 31,093 |
| Capital lease obligation | 317 | - | - | 317 |
| | 34,871 | - | - | 34,871 |

9. SUBSEQUENT EVENTS

a) Corporate acquisition

On July 6, 2009, the Company announced that it had entered into an amalgamation agreement (the "Amalgamation") to acquire all of the issued and outstanding shares of Salvo Energy Corporation ("Salvo"). Consideration for the Amalgamation is estimated to be approximately \$77.5 million, consisting of the issuance of approximately 19.9 million Crocotta common shares and the assumption of a working capital deficiency of approximately \$2.6 million and approximately \$51.5 million in debt, including \$37.0 million in debt incurred on the July 31, 2009 asset acquisition by Salvo, as described below. The Amalgamation is expected to close on August 13, 2009.

On July 31, 2009, Salvo closed the acquisition of certain oil and natural gas assets from an Alberta-based company ("AlbertaCo") for net cash consideration of \$37.0 million. The acquisition was financed through a new secured bridge loan facility and an increase to Crocotta's revolving operating demand loan credit facility with its current lender, as described below.

In conjunction with the Amalgamation, Crocotta obtained an increase in its revolving operating demand loan credit facility to \$60.0 million bearing interest at prime plus a range of 0.25% to 3.25%. The security on the facility was increased to a supplemental \$125 million fixed and floating charge debenture on the assets of the Company. The security also contains a \$125 million first position guarantee of Crocotta from any subsidiary of Crocotta or Salvo holding the assets acquired from AlbertaCo and a second position guarantee of Crocotta from Salvo.

Crocotta also obtained a \$25.0 million secured bridge facility. This bridge facility bears interest at 8% and is secured by a first position security charge on Salvo and a second position security charge on Crocotta or any subsidiary of Crocotta or Salvo holding the assets acquired from AlbertaCo. The maturity date on this bridge facility is December 31, 2009.

As a result of the Amalgamation, Crocotta will have net debt of approximately \$84.0 million, which includes the secured bridge facility noted above. Crocotta currently does not have the funds to repay the bridge facility. Crocotta has identified and initiated a sales process of non-strategic properties totalling approximately 1,000 boepd. Crocotta will use its best efforts to sell a minimum of 500 boepd prior to December 31, 2009 to raise sufficient funds to repay the bridge facility and allow for future cash flow to be used for capital programs in core areas. Other options to repay the bridge facility include raising equity, reducing capital spending, and renegotiating credit and bridge facilities. Although Management of Crocotta believes it can repay the bridge facility before its maturity date, there is no assurance that this will happen.

b) Hedging

Subsequent to June 30, 2009, the Company entered into hedges in the form of monthly settled puts ("Floors") as detailed below.

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

CORPORATE INFORMATION

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VP Operations & COO

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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
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