



## Press Release

### Q1 2008 Financial and Operating Results

FOR IMMEDIATE RELEASE – May 13, 2008

**CROCOTTA ENERGY INC. (TSX – CTA)** is pleased to announce its financial and operating results for the three months ended March 31, 2008, including financial statements, notes to the financial statements, and Management's Discussion and Analysis. All dollar figures are Canadian dollars unless otherwise noted.

#### HIGHLIGHTS

- Continued quarter-over-quarter growth in production and funds from operations. Production averaged 2,160 boepd and funds from operations was \$7.5 million in Q1 2008. Exit production of 2,600 boepd.
- Drilled 3 (1.3 net) successful wells in Smoky, Alberta. 1 (0.8 net) well was tied-in during the quarter increasing production in the area from nil to 180 boepd while 2 (0.6 net) wells are expected to be tied-in during Q4 2008.
- Tied-in 3 (2.0 net) wells during the quarter that were drilled in 2007 adding 200 boepd of production in the Niton and Peace River Arch areas. Also implemented a waterflood scheme at Niton increasing production from that pool to 700 boepd from 380 boepd in December 2007.

FINANCIAL	Three Months Ended March 31		
	2008	2007	% Change
(\$000s, except per share amounts)			
<b>Oil and natural gas sales</b>	<b>12,937</b>	532	2,332
<b>Funds from operations</b>	<b>7,467</b>	(70)	10,767
per share - basic and diluted <sup>(1)</sup>	<b>0.23</b>	(0.01)	2,400
<b>Net earnings</b>	<b>808</b>	382	112
per share - basic and diluted <sup>(1)</sup>	<b>0.02</b>	0.05	(60)
<b>Capital expenditures</b>	<b>15,969</b>	2,234	615
<b>Property dispositions</b>	<b>4,560</b>	-	100
<b>Net working capital (deficiency)</b>	<b>(15,454)</b>	11,165	(238)
<b>Common shares outstanding (000s) <sup>(1)</sup></b>			
weighted average - basic and diluted	<b>33,045</b>	7,980	314
end of period - basic	<b>33,045</b>	7,980	314
end of period - diluted	<b>38,191</b>	10,017	281

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

<b>OPERATING</b>	<b>Three Months Ended March 31</b>		
	<b>2008</b>	<b>2007</b>	<b>% Change</b>
<b>Number of producing days</b>	<b>91</b>	90	
<b>Daily production</b>			
Oil and NGLs - (bbls/d)	<b>795</b>	49	1,522
Natural gas - (mcf/d)	<b>8,191</b>	325	2,420
Oil equivalent - (\$/boe @ 6:1)	<b>2,160</b>	103	1,997
<b>Revenue, net of transportation</b>			
Oil and NGLs - (\$/bbl)	<b>90.22</b>	66.69	35
Natural gas - (\$/mcf)	<b>8.34</b>	7.78	7
Oil equivalent - (\$/boe @ 6:1)	<b>64.86</b>	56.20	15
<b>Royalties</b>			
Oil and NGLs - (\$/bbl)	<b>20.97</b>	3.60	483
Natural gas - (\$/mcf)	<b>1.39</b>	1.66	(16)
Oil equivalent - (\$/boe @ 6:1)	<b>12.98</b>	6.94	87
<b>Production expenses</b>			
Oil and NGLs - (\$/bbl)	<b>8.77</b>	8.52	3
Natural gas - (\$/mcf)	<b>1.62</b>	1.18	37
Oil equivalent - (\$/boe @ 6:1)	<b>9.38</b>	7.77	21
<b>Operating netback</b>			
Oil and NGLs - (\$/bbl)	<b>60.48</b>	54.57	11
Natural gas - (\$/mcf)	<b>5.33</b>	4.94	8
Oil equivalent - (\$/boe @ 6:1)	<b>42.50</b>	41.49	2

### Operations Update and Outlook

Crocotta has been able to successfully increase production in 6 consecutive quarters since inception in late 2006 and believes production will continue to grow throughout 2008 and is still on target to meet previous guidance of approximately 2,600 boepd. Q208 production is estimated at 2,400-2,600 boepd (down from recently released estimate of 2,800 boepd) due mainly to a production restriction at Niton (200 boepd) and recently announced turn-arounds at third party facilities.

From a financial perspective, Crocotta is well positioned with very low net debt (less than 6 months projected cash flow) and approximately \$20 million of unutilized credit facilities. Given strength of financial position and flexible capital program, Crocotta has not hedged any of its production and continues to benefit from strength in commodity pricing for both oil and natural gas.

Strategically, Crocotta is focusing on tight gas reservoirs that can be potentially exploited with new technology and conventional plays that have multi-zone potential. More specifically, Crocotta is focusing on deep Cardium gas at Smoky and Hanlan (Alberta), Rock Creek oil and gas at Niton (Alberta), Montney gas in northeast British Columbia and Mannville oil and gas at Lookout Butte (Southern Alberta Foothills).

Crocotta will continue to aggressively pursue land and production acquisitions in core areas and will look to sell or swap out of non-core properties including its Peace River Arch properties and various other miscellaneous properties.

## Management's Discussion and Analysis

May 9, 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 months ended March 31, 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") 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](http://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.

### Forward-Looking Information

This MD&A may contain forward-looking information that involves a number of risks and uncertainties that could cause actual results to differ materially from those anticipated. For this purpose, any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. Such risks and uncertainties include, but are not limited to: risks associated with the oil and natural gas industry (e.g. – operational risks in exploration, development and production; changes and/or delays in the development of capital assets; uncertainty of reserve estimates; uncertainty of estimates and projections relating to production and costs; commodity price fluctuations; environmental risks; and industry competition).

### Non-GAAP Measures

Funds from operations and operating netback as presented do not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures used by other companies. Funds from operations refers to the cash flows from operations determined before changes in non-cash working capital. 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.

Summary of Financial Results	Three Months Ended March 31		
	2008	2007	% Change
(\$000s, except per share amounts)			
<b>Oil and natural gas sales</b>	<b>12,937</b>	532	2,332
<b>Funds from operations</b>	<b>7,467</b>	(70)	10,767
per share - basic and diluted <sup>(1)</sup>	<b>0.23</b>	(0.01)	2,400
<b>Net earnings</b>	<b>808</b>	382	112
per share - basic and diluted <sup>(1)</sup>	<b>0.02</b>	0.05	(60)
<b>Total assets</b>	<b>151,604</b>	25,292	499
<b>Net working capital (deficiency)</b>	<b>(15,454)</b>	11,165	(238)
<b>Total long-term liabilities</b>	<b>7,131</b>	183	3,797

(1) 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 period have been adjusted to reflect the three-to-one consolidation.

**Crocotta Energy Inc.**  
**Management's Discussion & Analysis**  
**Three months ended March 31, 2008**

**Summary of Quarterly Results <sup>(1)</sup>**

	<b>Q1 2008</b>	<b>Q4 2007</b>	<b>Q3 2007</b>	<b>Q2 2007</b>	<b>Q1 2007</b>	<b>Q4 2006</b>
Number of producing days	91	92	92	91	90	47
(\$000s, except per share amounts)						
Oil and natural gas sales	12,937	9,994	2,587	1,266	532	290
Funds from operations	7,467	4,997	1,157	323	(70)	(194)
per share - basic and diluted <sup>(2)</sup>	0.23	0.16	0.07	0.03	(0.01)	(0.16)
Net earnings (loss)	808	(523)	(259)	(339)	382	(436)
per share - basic and diluted <sup>(2)</sup>	0.02	(0.02)	(0.02)	(0.03)	0.05	(0.36)

- (1) There are not eight quarters of information disclosed as Crocotta began active oil and natural gas operations on November 15, 2006. As such, the disclosure reflects only those periods with active oil and natural gas operations. 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 Q1 2008 compared to Q1 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**

	<b>Three Months Ended March 31</b>		
	<b>2008</b>	<b>2007</b>	<b>% Change</b>
Average Daily Production			
Oil and NGLs (bbls/d)	<b>795</b>	49	1,522
Natural gas (mcf/d)	<b>8,191</b>	325	2,420
Total (boe/d)	<b>2,160</b>	103	1,997

Daily production for the first quarter of 2008 increased significantly to 2,160 boe/d compared to 103 boe/d for the comparative period ended March 31, 2007. Production increased mainly as a result of the acquisitions of Eastshore and Diamond Tree in Q2 and Q3 2007, which added approximately 500 boe/d and 1,450 boe/d, respectively, at the time of closing of each acquisition.

**Revenue**

(\$000s)	<b>Three Months Ended March 31</b>		
	<b>2008</b>	<b>2007</b>	<b>% Change</b>
Oil and NGLs	<b>6,607</b>	298	2,117
Natural gas	<b>6,330</b>	234	2,605
Total revenue	<b>12,937</b>	532	2,332
Transportation expenses	<b>(185)</b>	(10)	1,750
Total revenue, net of transportation	<b>12,752</b>	522	2,343

**Average Sales Price**

	<b>2008</b>	<b>2007</b>	<b>% Change</b>
Oil and NGLs (\$/bbl)	<b>91.27</b>	67.60	35
Natural gas (\$/mcf)	<b>8.49</b>	7.98	6
Average sales price (\$/boe)	<b>65.80</b>	57.26	15
Transportation expenses (\$/boe)	<b>(0.94)</b>	(1.06)	(11)
Average sales price (\$/boe), net	<b>64.86</b>	56.20	15

Revenue, before transportation, totaled \$12.9 million for the first quarter of 2008, up dramatically from \$0.5 million for the first quarter of 2007. Revenue increased as a result of the Eastshore and Diamond Tree acquisitions in 2007 and successful drilling efforts during the latter half of 2007 and the first quarter of 2008.

On a per unit basis, revenue, before transportation, increased 15% to \$65.80/boe for the first quarter of 2008 compared to \$57.26/boe for the same period in 2007. The increase was the result of a significant increase in oil, NGLs, and natural gas commodity prices in the first quarter of 2008 compared to 2007.

During the quarter, 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 quarter of 2008.

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

Commodity Pricing	Three Months Ended March 31		
	2008	2007	% Change
<b>Oil and NGLs</b>			
Corporate Price (\$Cdn/bbl)	91.27	67.60	35
West Texas Intermediate (\$US/bbl)	97.87	57.87	69
Edmonton Par (\$Cdn/bbl)	98.16	67.74	45
<b>Natural gas</b>			
Corporate Price (\$Cdn/mcf)	8.49	7.98	6
AECO Daily Spot Price (\$Cdn/mcf)	7.94	7.42	7
<b>Exchange Rates</b>			
U.S./Cdn. Dollar Average Exchange Rate	0.9956	0.8537	17

Corporate average oil and NGLs prices were 93.0% of Edmonton Par price for the quarter ended March 31, 2008. Corporate average natural gas prices were 106.9% of AECO Daily Spot price for the quarter ended March 31, 2008. 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 March 31		
	2008	2007	% Change
Oil and NGLs (\$/bbl)	1.05	0.91	15
Natural gas (\$/mcf)	0.15	0.20	(25)
Total (\$/boe)	0.94	1.06	(11)

Transportation expenses are mainly third-party pipeline tariffs incurred to deliver the products to the purchasers at main hubs and were relatively unchanged in the first quarter of 2008 compared to 2007.

Royalties (\$000s)	Three Months Ended March 31		
	2008	2007	% Change
Oil and NGLs	1,518	16	9,388
Natural gas	1,035	48	2,056
Total royalties	2,553	64	3,889
<b>Average Royalty Rate (% of sales)</b>			
Oil and NGLs	23.0	5.3	334
Natural gas	16.3	20.8	(22)
Average royalty rate	19.7	12.1	63

Oil, NGLs, and natural gas royalties increased significantly in the quarter ended March 31, 2008 from the comparative period in 2007 mainly as a result of increased revenue from the Eastshore and Diamond Tree acquisitions in Q2 and Q3 2007.

The overall effective royalty rate was 19.7% for the quarter ended March 31, 2008, compared to 12.1% for the quarter ended March 31, 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 Company anticipates that the overall effective royalty rate will increase in future periods upon the expiration of the crown royalty holidays.

Production Expenses	Three Months Ended March 31		
	2008	2007	% Change
Oil and NGLs (\$/bbl)	8.77	8.52	3
Natural gas (\$/mcf)	1.62	1.18	37
Total (\$/boe)	9.38	7.77	21

Per unit production expenses for the first quarter of 2008 were \$9.38/boe, up 21% from \$7.77/boe for the quarter ended March 31, 2007. Per unit production expenses increased as a result of higher per unit costs incurred on the properties acquired from Eastshore and Diamond Tree in 2007. Of note, production expenses included \$0.1 million relating to one-time workover costs incurred at three of the Company's wells in the first quarter of 2008. Had these costs not been incurred, per unit production expenses would have decreased to \$8.99/boe for the first quarter of 2008.

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<b>Operating Netback</b>	<b>Three Months Ended March 31</b>		
	<b>2008</b>	<b>2007</b>	<b>% Change</b>
<b>Oil and NGLs (\$/bbl)</b>			
Revenue	91.27	67.60	35
Royalties	20.97	3.60	483
Production expenses	8.77	8.52	3
Transportation expenses	1.05	0.91	15
<b>Operating netback</b>	<b>60.48</b>	<b>54.57</b>	<b>11</b>
<b>Natural gas (\$/mcf)</b>			
Revenue	8.49	7.98	6
Royalties	1.39	1.66	(16)
Production expenses	1.62	1.18	37
Transportation expenses	0.15	0.20	(25)
<b>Operating netback</b>	<b>5.33</b>	<b>4.94</b>	<b>8</b>
<b>Combined (\$/boe) (6:1)</b>			
Revenue	65.80	57.26	15
Royalties	12.98	6.94	87
Production expenses	9.38	7.77	21
Transportation expenses	0.94	1.06	(11)
<b>Operating netback</b>	<b>42.50</b>	<b>41.49</b>	<b>2</b>

The operating netback is a key indicator of an exploration and production company's ability to generate cash flow for reinvestment. During the first quarter of 2008, Crocotta generated an operating netback of \$42.50/boe, up 2% from \$41.49/boe for the first quarter of 2007. The increase in the operating netback was a result of a significant increase in oil, NGLs, and natural gas prices, which was largely offset by an increase in royalties and production expenses, stemming from the higher per unit royalty expenses and production expenses on the oil and natural gas assets acquired from Eastshore and Diamond Tree during 2007.

<b>General and Administrative Expenses ("G&amp;A")</b> (\$000s)	<b>Three Months Ended March 31</b>		
	<b>2008</b>	<b>2007</b>	<b>% Change</b>
G&A expenses (gross)	1,053	707	49
G&A capitalized	(120)	(101)	19
G&A recoveries	(153)	(35)	337
G&A expenses (net)	780	571	37
<b>G&amp;A expenses (\$/boe)</b>	<b>3.97</b>	<b>61.49</b>	<b>(94)</b>

G&A decreased dramatically to \$3.97/boe for the first quarter of 2008 compared to \$61.49/boe for the quarter ended March 31, 2007. The decrease in G&A on a per unit basis is the result of the significant increase in production.

<b>Interest</b> (\$000s)	<b>Three Months Ended March 31</b>		
	<b>2008</b>	<b>2007</b>	<b>% Change</b>
Interest expense	114	-	100
Interest income	(7)	(115)	(94)
<b>Net interest expense (income)</b>	<b>107</b>	<b>(115)</b>	<b>193</b>
<b>Interest expense (income) (\$/boe)</b>	<b>0.54</b>	<b>(12.37)</b>	<b>104</b>

Interest expense amounts for the first quarter 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 quarter of 2008. Interest income in the first quarter of 2007 related to interest earned on funds raised through the November 2006 private placement issuance.

<b>Depletion, Depreciation and Accretion ("DD&amp;A")</b>	<b>Three Months Ended March 31</b>		
	<b>2008</b>	<b>2007</b>	<b>% Change</b>
DD&A (\$000s)	6,159	256	2,306
<b>DD&amp;A (\$/boe)</b>	<b>31.33</b>	<b>27.53</b>	<b>14</b>

DD&A increased 14% to \$31.33/boe for the quarter ended March 31, 2008 compared to \$27.53/boe for the quarter ended March 31, 2007. The provision for DD&A for the quarter ended March 31, 2008 includes \$0.1 million 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.

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Stock-based Compensation	Three Months Ended March 31		
	2008	2007	% Change
Stock-based compensation (\$000s)	152	19	700
Stock-based compensation (\$/boe)	0.77	2.03	(62)

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 quarter of 2008 compared to the first quarter of 2007 is a result of the issuance of approximately 1.8 million options in the intervening period.

**Taxes**

At March 31, 2008, the Company had approximately \$127.0 million in tax pools, losses, and share issue costs.

	March 31, 2008
(\$000s)	
Canadian oil and gas property expense (COGPE)	-
Canadian development expense (CDE)	30,935
Canadian exploration expense (CEE)	61,667
Undepreciated capital costs (UCC)	26,666
Non-capital losses carried forward	2,209
Capital losses carried forward	3,416
Share issue costs	2,103
<b>Total pools, losses, and share issue costs</b>	<b>126,996</b>

Included in the \$127.0 million in tax pools is \$3.4 million in capital losses and \$1.2 million in non-capital losses, against which a valuation allowance is provided, leaving the Company with \$122.4 million of effective tax pools. During the first quarter of 2008, the Company had a future income tax expense of \$0.3 million for an effective tax rate of 43.1%. The effective tax rate is significantly higher than the enacted tax rate of 29.5% due to the effect of non-deductible stock-based compensation expense on the relatively small portion of earnings before taxes.

**Funds from Operations and Net Earnings**

Funds from operations for the first quarter of 2008 were \$7.5 million (\$0.23 per diluted share). The Company had net earnings of \$0.8 million (\$0.02 per diluted share) for the first quarter of 2008. Net earnings arose mainly from a significant increase in revenue as a result of increases in oil, NGLs, and natural gas production during the quarter.

**Capital Expenditures**

Capital expenditures during the first quarter of 2008 were \$16.0 million. These expenditures were partially offset by the disposition of \$4.6 million in oil and natural gas properties during the first quarter of 2008, leaving net capital expenditures of \$11.4 million.

(\$000s)	Three Months Ended March 31		
	2008	2007	% Change
Land	997	25	3,888
Drilling, completions, and workovers	11,353	1,742	552
Equipment	3,230	214	1,409
Geological and geophysical	316	253	25
Other	73	-	100
Total exploration and development	15,969	2,234	615
Property dispositions	4,560	-	100
<b>Net capital expenditures</b>	<b>11,409</b>	<b>2,234</b>	<b>411</b>

During the first quarter of 2008, Crocotta drilled 4 (2.2 net) wells, which resulted in 3 (1.3 net) natural gas wells and 1 (0.9 net) uneconomical well. One of the successful wells was tied-in during the quarter, while the remaining two wells are anticipated to be tied-in during the fourth quarter of 2008.

**Liquidity and Capital Resources**

The Company had a working capital deficiency of \$15.5 million at March 31, 2008 compared to a working capital deficiency of \$11.5 million at December 31, 2007. The change of \$4.0 million was mainly due to \$11.4 million in net capital expenditures partially offset by funds from operations of \$7.5 million.

Crocotta has a revolving operating demand loan credit facility available up to \$34.0 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 March 31, 2008, \$10.7 million had been drawn on the credit facility.

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.

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**Three months ended March 31, 2008**

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**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	10,700	10,700	-	-
Operating lease	2,239	631	1,221	387
Capital lease	653	261	392	-
Total contractual obligations	13,592	11,592	1,613	387

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)	March 31, 2008	May 9, 2008
Voting common shares	33,045	33,045
Options	2,742	2,742
Warrants	2,404	2,404
Total	38,191	38,191

**Related Party Transactions**

During the first quarter 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 quarter of 2008 was \$0.9 million. At March 31, 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.

#### *Future Accounting Changes*

Effective January 1, 2009, the Company will be required to adopt CICA Handbook Section 3031, *Inventories* and Section 3064, *Goodwill and Intangible Assets*. Section 3031 outlines measurement and disclosure requirements for inventory and requires the Company to reverse previous impairment write-downs when there is a change in the situation that caused the impairment. Section 3064 establishes the criteria for the recognition of intangible assets. In addition, amended Section 1400, *General Standards of Financial Statement Presentation*, will require the Company to assess and disclose the Company's ability to continue as a going concern. The adoption of these new standards is not expected to have an 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 is currently assessing the impact of adopting IFRS, including an examination of recognition, measurement, and disclosure differences.

### **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**

	As at March 31, 2008 (Unaudited)	As at December 31, 2007 (Audited)
(\$000s)		
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	1,152	3,003
Accounts receivable	8,939	8,414
Prepaid expenses and deposits	1,342	1,366
	<b>11,433</b>	<b>12,783</b>
Oil and natural gas properties and equipment (note 3)	140,171	134,848
	<b>151,604</b>	<b>147,631</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	15,965	18,170
Revolving credit facility (note 4)	10,700	5,850
Current portion of capital lease (note 6)	222	218
	<b>26,887</b>	<b>24,238</b>
Asset retirement obligations (note 5)	3,093	3,050
Capital lease (note 6)	375	432
Future income tax liability	3,663	2,014
Shareholders' equity:		
Capital stock (note 7)	118,536	119,838
Contributed surplus	386	203
Deficit	(1,336)	(2,144)
	<b>117,586</b>	<b>117,897</b>
	<b>151,604</b>	<b>147,631</b>

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 and Deficit**  
(Unaudited)

<b>Three months ended March 31,</b>	<b>2008</b>	<b>2007</b>
(\$000s, except per share amounts)		
<b>Revenue:</b>		
Oil and natural gas sales	12,937	532
Transportation expense	(185)	(10)
Royalties	(2,553)	(64)
Interest income	7	115
	<b>10,206</b>	<b>573</b>
<b>Expenses:</b>		
Production	1,845	72
General and administrative	780	571
Interest expense	114	-
Depletion, depreciation and accretion	6,159	256
Stock-based compensation	152	19
	<b>9,050</b>	<b>918</b>
Earnings (loss) before taxes	1,156	(345)
<b>Taxes:</b>		
Future income tax expense (recovery)	348	(727)
Net earnings for the period	808	382
Deficit, beginning of period	(2,144)	(1,405)
Deficit, end of period	(1,336)	(1,023)
Net earnings per share:		
Basic and diluted	0.02	0.05

See accompanying notes to the financial statements

**Crocotta Energy Inc.**  
**Statements of Cash Flows**  
(Unaudited)

Three months ended March 31,	2008	2007
(\$000s)		
<b>Cash provided by (used in):</b>		
<b>Operating:</b>		
Net earnings	808	382
Items not affecting cash:		
Depletion, depreciation and accretion	6,159	256
Stock-based compensation	152	19
Future income tax expense (recovery)	348	(727)
	<b>7,467</b>	<b>(70)</b>
Net change in non-cash working capital (note 10)	<b>(1,267)</b>	<b>(513)</b>
	<b>6,200</b>	<b>(583)</b>
<b>Financing:</b>		
Bank loan	4,850	-
Capital lease principal payments	(57)	-
	<b>4,793</b>	<b>-</b>
<b>Investing:</b>		
Purchase and development of oil and natural gas properties and equipment	(15,969)	(2,234)
Disposition of oil and natural gas properties and equipment (note 2)	4,560	-
Net change in non-cash investing working capital (note 10)	(1,435)	(1,413)
	<b>(12,844)</b>	<b>(3,647)</b>
Change in cash and cash equivalents	<b>(1,851)</b>	<b>(4,230)</b>
Cash and cash equivalents, beginning of period	<b>3,003</b>	<b>15,848</b>
Cash and cash equivalents, end of period	<b>1,152</b>	<b>11,618</b>

See accompanying notes to the financial statements

**Crocotta Energy Inc.**  
**Notes to the Consolidated Financial Statements**  
**Three months ended March 31, 2008**

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*(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.

*Future accounting changes*

Effective January 1, 2009, the Company will be required to adopt CICA Handbook Section 3031, *Inventories* and Section 3064, *Goodwill and Intangible Assets*. Section 3031 outlines measurement and disclosure requirements for inventory and requires the Company to reverse previous impairment write-downs when there is a change in the situation that caused the impairment. Section 3064 establishes the criteria for the recognition of intangible assets. In addition, amended Section 1400, *General Standards of Financial Statement Presentation*, will require the Company to assess and disclose the Company's ability to continue as a going concern. The adoption of these new standards is not expected to have an 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 is currently assessing the impact of adopting IFRS, including an examination of recognition, measurement, and disclosure differences.

**Crocotta Energy Inc.**  
**Notes to the Consolidated Financial Statements**  
**Three months ended March 31, 2008**

*(Tabular amounts in 000s, unless otherwise stated)*

**2. PROPERTY DISPOSITION**

During the quarter, Crocotta sold certain oil and natural gas properties to two unrelated parties for proceeds of approximately \$4.6 million. The following table details the allocation of the proceeds on disposition, which is subject to final adjustments:

Net assets disposed	Amount
Oil and natural gas properties	4,661
Asset retirement obligation	(101)
	4,560
<b>Proceeds on disposition</b>	
Cash	4,228
Purchase price adjustment	332
	4,560

**3. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT**

	March 31, 2007	December 31, 2007
Oil and natural gas properties	153,417	141,990
Equipment under capital lease	763	763
Office and other equipment	269	264
	154,449	143,017
Accumulated depletion and depreciation	(14,278)	(8,169)
Net Book Value	140,171	134,848

As at March 31, 2008, the cost of oil and natural gas properties includes approximately \$15.2 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 months ended March 31, 2008, the provision for depletion, depreciation and accretion includes \$0.1 million for accretion of asset retirement obligations and amortization of equipment under capital lease. During the three months ended March 31, 2008, the Company capitalized \$0.1 million of general and administrative costs.

The Company performed an impairment test calculation at March 31, 2008 to assess the recoverable value of the oil and natural gas properties. The oil and natural gas future prices are based on April 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 March 31, 2008.

Year	WTI Oil (\$US/bbl)	Foreign Exchange Rate	Edmonton Light Crude Oil (\$Cdn/bbl)	AECO Gas (\$Cdn/mmbtu)
2008	97.67	1.000	96.77	8.42
2009	90.00	1.000	89.10	8.20
2010	86.00	1.000	85.10	8.10
2011	85.00	1.000	84.10	7.95
2012	85.00	1.000	84.10	8.01
2013	85.00	1.000	84.10	8.18
2014	85.00	1.000	84.10	8.36
2015	86.15	1.000	85.25	8.54
2016	87.87	1.000	86.97	8.72
2017	89.63	1.000	88.73	8.91
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 \$34.0 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 March 31, 2008, \$10.7 million had been drawn on the credit facility.

**Crocotta Energy Inc.**  
**Notes to the Consolidated Financial Statements**  
**Three months ended March 31, 2008**

*(Tabular amounts in 000s, unless otherwise stated)*

**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 \$8.4 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:

	<b>Three Months Ended</b>	Year Ended
	<b>March 31, 2008</b>	December 31, 2007
Balance, beginning of period	<b>3,050</b>	173
Liabilities disposed through property disposition (note 2)	<b>(101)</b>	-
Liabilities acquired upon Plans of Arrangement	-	2,492
Liabilities incurred in period	<b>94</b>	311
Accretion expense	<b>50</b>	74
Balance, end of period	<b>3,093</b>	3,050

**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:

	<b>Future Minimum</b>	<b>Executory Costs and</b>	<b>Annual Principal</b>
	<b>Lease Payments</b>	<b>Imputed Interest</b>	<b>Repayments</b>
2008	195	(30)	165
2009	458	(26)	432
Total	653	(56)	597
Less: Current portion	(261)	39	(222)
	392	(17)	375

**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**

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

During the quarter, 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 quarter on qualified capital expenditures.

**Crocotta Energy Inc.**  
**Notes to the Consolidated Financial Statements**  
**Three months ended March 31, 2008**

*(Tabular amounts in 000s, unless otherwise stated)*

**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 authorized the issuance of the maximum 2.4 million warrants during 2007, as outlined below:

	Number of Warrants	Weighted Average Price (\$)	Exercisable at March 31, 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.

**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 March 31, 2008, 2.7 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 January 10, 2013.

The Company had the following stock options outstanding at March 31, 2008:

	Number of Options	Weighted Average Price (\$)	Weighted Average Years to Expiry
Balance at December 31, 2007	2,727	3.01	4.36
Options granted	15	3.00	4.79
Balance at March 31, 2008	2,742	3.01	4.36
Exercisable at March 31, 2008	298	3.00	3.83

**e) Stock-based compensation**

The compensation cost recognized during the three months ended March 31, 2008 for the stock option plan was \$0.2 million.

The fair value of each option granted during the three months ended March 31, 2008 was determined using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended March 31, 2008
Fair value per option	\$1.04
Risk-free rate	3.5%
Expected life	4.0 years
Expected volatility	45.0%
Dividend yield	-

**Crocotta Energy Inc.**  
**Notes to the Consolidated Financial Statements**  
**Three months ended March 31, 2008**

*(Tabular amounts in 000s, unless otherwise stated)*

**f) Per share information**

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

	<b>Three Months Ended March 31, 2008</b>	Year Ended December 31, 2007
Basic and diluted	<b>33,045</b>	16,605

**8. CAPITAL DISCLOSURES**

The Company's objectives when managing capital are to maintain a flexible capital structure, which optimizes the cost of capital at 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 our 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.

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 March 31, 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 by \$0.1 million.

*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 by virtually \$nil.

*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 by \$0.1 million.

**Crocotta Energy Inc.**  
**Notes to the Consolidated Financial Statements**  
**Three months ended March 31, 2008**

*(Tabular amounts in 000s, unless otherwise stated)*

**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 March 31, 2008, there are no material financial assets that the Company considers impaired or past due.

**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 March 31, 2008:

<b>Financial Liability</b>	<b>Less than 1 Year</b>	<b>1 to less than 2 Years</b>	<b>Thereafter</b>	<b>Total</b>
Accounts payable and accrued liabilities	15,965	-	-	15,965
Revolving credit facility	10,700	-	-	10,700
Capital lease obligation	261	392	-	653
	26,926	392	-	27,318

**10. SUPPLEMENTAL CASH FLOW INFORMATION**

**a) Net change in non-cash working capital**

	<b>Three Months Ended March 31, 2008</b>	<b>Three Months Ended March 31, 2007</b>
Accounts receivable	(525)	(854)
Prepaid expenses and deposits	24	(231)
Accounts payable and accrued liabilities	(2,205)	(841)
Current portion of capital lease	4	-
<b>Net change in non-cash working capital</b>	<b>(2,702)</b>	<b>(1,926)</b>
Relating to:		
Investing	(1,435)	(513)
Operating	(1,267)	(1,413)
<b>Net change in non-cash working capital</b>	<b>(2,702)</b>	<b>(1,926)</b>

**Crocotta Energy Inc.**  
**Notes to the Consolidated Financial Statements**  
**Three months ended March 31, 2008**

*(Tabular amounts in 000s, unless otherwise stated)*

**b) Interest and taxes**

	<b>Three Months Ended March 31, 2008</b>	Three Months Ended March 31, 2007
Cash interest received	7	115
Cash interest paid	<b>(114)</b>	-
	<b>(107)</b>	115
Cash taxes paid	-	-

**11. RELATED PARTY TRANSACTIONS**

During the quarter, 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 quarter was \$0.9 million. At March 31, 2008, the Company did not have a balance outstanding to the related party.

## **CORPORATE INFORMATION**

### **OFFICERS AND DIRECTORS**

**Robert J. Zakresky, CA**  
President, CEO & Director

**Nolan Chicoine, MPAcc, CA**  
VP Finance & CFO

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

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

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

**Helmut R. Eckert, P.Land**  
VP Land

**Kevin Keith**  
VP Production

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

**Daryl H. Gilbert, P.Eng.**  
Director

**Don Cowie**  
Director

**Brian Krausert**  
Director

**Gary W. Burns**  
Director

**Don D. Copeland, P.Eng.**  
Director

**Brian Boulanger**  
Director

### **FORWARD-LOOKING STATEMENTS**

This press release may contain forward-looking information that involves a number of risks and uncertainties that could cause actual results to differ materially from those anticipated. For this purpose, any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. Such risks and uncertainties include, but are not limited to: risks associated with the oil and gas industry (e.g. – operational risks in exploration, development and production; changes and/or delays in the development of capital assets; uncertainty of reserve estimates; uncertainty of estimates and projections relating to production and costs; commodity price fluctuations; environmental risks; and industry competition).

For further information, please visit our website at [www.crocotta.ca](http://www.crocotta.ca) or contact:

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