



Highlights

- On June 8, 2007, Crocotta completed a plan of arrangement with Eastshore Energy Ltd. ("Eastshore"), whereby Crocotta acquired all of the issued and outstanding shares of Eastshore. Eastshore has oil and natural gas assets located in West Central Alberta that were producing approximately 495 boe/d at the date of acquisition.
- During the quarter, Crocotta issued approximately 3.2 million common shares on a flow-through basis at a price of \$1.55 per share for gross proceeds of approximately \$5.0 million.
- Crocotta entered into put and call financing arrangements to issue 15.2 million common shares priced at \$1.25 per share for proceeds of \$19.0 million.
- Crocotta obtained a revolving operating demand loan credit facility of up to \$14.5 million bearing interest at prime plus 0.125% with a Canadian bank.
- Subsequent to quarter-end, Crocotta announced a business combination by way of plan of arrangement (the "Arrangement") to acquire Diamond Tree Energy Ltd. ("Diamond Tree"). The Arrangement is expected to add an additional 1,500 boe/d of production to Crocotta's current production base. The Arrangement is expected to close by mid-October 2007.

FINANCIAL ⁽¹⁾	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
(\$, except where noted)		
Oil and natural gas sales	1,265,696	1,797,407
Funds from operations	322,820	251,933
per share - basic and diluted	0.01	0.01
Net earnings	(338,713)	43,229
per share - basic and diluted	(0.01)	-
Capital expenditures	1,415,885	3,649,842
Corporate acquisition	30,190,161	30,190,161
Net cash and working capital		8,448,414
Common shares outstanding		
weighted average - basic and diluted	30,685,500	27,331,385
end of period - basic		50,536,107
end of period - diluted		70,546,107

(1) There are no comparative numbers as the Company began active oil and natural gas operations on November 15, 2006.

OPERATING ⁽¹⁾	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
Number of producing days	91	181
Daily production		
Oil and liquids - (bbls/d)	106	78
Natural gas - (mcf/d)	963	646
Oil equivalent - (boe/d @ 6:1)	267	186
Revenue, net of transportation		
Oil and liquids - (\$/bbl)	64.11	64.92
Natural gas - (\$/mcf)	7.17	7.32
Oil equivalent - (\$/boe @ 6:1)	51.40	52.73
Royalties		
Oil and liquids - (\$/bbl)	7.18	6.06
Natural gas - (\$/mcf)	1.30	1.39
Oil equivalent - (\$/boe @ 6:1)	7.56	7.39
Production expenses		
Oil and liquids - (\$/bbl)	9.47	9.17
Natural gas - (\$/mcf)	1.47	1.40
Oil equivalent - (\$/boe @ 6:1)	9.07	8.71
Operating netback		
Oil and liquids - (\$/bbl)	47.46	49.69
Natural gas - (\$/mcf)	4.40	4.53
Oil equivalent - (\$/boe @ 6:1)	34.77	36.63

(1) There are no comparative numbers as the Company began active oil and natural gas operations on November 15, 2006.

Management's Discussion and Analysis

August 10, 2007

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. Crocotta is not publicly listed or actively traded on any stock exchange.

On August 16, 2005, Donner Minerals Ltd., the predecessor to the Company, completed a reorganization, by way of statutory plan of arrangement, and restructured into two separate companies, Donner Metals Ltd. and Donner Minerals Ltd., which changed its name to Donner Petroleum Ltd. and subsequently to Crocotta Energy Inc. On November 14, 2006, the Company appointed a new board of directors and hired a new management team consisting of the previous directors and officers of Chamaelo Exploration Ltd. ("Chamaelo"). On November 15, 2006, the Company commenced active oil and natural gas operations with the acquisition of certain oil and natural gas properties from Chamaelo.

Effective December 31, 2006, the Company changed its fiscal year-end from February 28 to December 31. As a result, the consolidated financial statements for the three and six months ended June 30, 2007 and the disclosure throughout the Management's Discussion and Analysis ("MD&A") reflect Crocotta's overall company results for the three and six months ended June 30, 2007, with comparative results for the three and six months ended May 31, 2006.

The MD&A should be read in conjunction with the unaudited interim consolidated financial statements for the three and six months ended June 30, 2007 and the audited consolidated financial statements for the 10-month period ended December 31, 2006. The unaudited interim consolidated 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).

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. The determination of funds from operations is detailed on the Consolidated Statement of Cash Flows and is 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 ⁽¹⁾	Three Months Ended	Six Months Ended
	June 30, 2007	June 30, 2007
	\$	\$
Oil and natural gas sales	1,265,696	1,797,407
Funds from operations	322,820	251,933
per share - basic and diluted	0.01	0.01
Net earnings	(338,713)	43,229
per share - basic and diluted	(0.01)	-
Total assets		58,104,103
Net cash and working capital		8,448,414
Total long-term liabilities		930,033

(1) There are no comparative numbers as the Company began active oil and natural gas operations on November 15, 2006.

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Production	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
Average Daily Production		
Oil and liquids (bbls/d)	106	78
Natural gas (mcf/d)	963	646
Total (boe/d)	267	186

For the three months ended June 30, 2007, crude oil and natural gas liquids production averaged 106 bbls/d and natural gas production averaged 963 mcf/d. On a combined basis, average daily production totaled 267 boe/d for the three months ended June 30, 2007. Year-to-date, crude oil and natural gas liquids production averaged 78 bbls/d and natural gas production averaged 646 mcf/d. On a combined basis, average daily production totaled 186 boe/d for the six months ended June 30, 2007.

Production increased 164 boe/d or 159% in Q2 2007 over Q1 2007 (103 boe/d) as a result of the Plan of Arrangement with Eastshore Energy Ltd. ("Eastshore") that closed on June 8, 2007. Production from the oil and natural gas assets acquired from Eastshore averaged approximately 495 boe/d for the 23-day period from June 8, 2007 to June 30, 2007. The Company anticipates a significant increase in Q3 2007 production compared to the first half of 2007 as the third quarter will include a full three months of production from the Eastshore properties.

Revenue	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
	\$	\$
Oil and liquids	625,481	923,581
Natural gas	640,215	873,826
Total revenue	1,265,696	1,797,407
Transportation expenses	(18,581)	(28,466)
Total revenue, net of transportation	1,247,115	1,768,941
Average Sales Price		
Oil and liquids (\$/bbl)	64.76	65.65
Natural gas (\$/mcf)	7.31	7.48
Average sales price (\$/boe)	52.17	53.58
Transportation expenses (\$/boe)	(0.77)	(0.85)
Average sales price (\$/boe), net of transportation	51.40	52.73

Revenue, before transportation, totaled \$1,265,696 for the three months ended June 30, 2007 and \$1,797,407 for the six months ended June 30, 2007. Revenue increased \$733,985 or 138% in Q2 2007 over Q1 2007 (\$531,711) as a result of the Plan of Arrangement with Eastshore that closed on June 8, 2007. On a per unit basis, revenue decreased 8.9% to \$52.17/boe in Q2 2007 from \$57.26/boe in Q1 2007 mainly due to a decrease in natural gas prices and a significant increase in natural gas production as a result of the Plan of Arrangement with Eastshore.

Currently, the Company sells all its oil, natural gas liquids, and natural gas on the spot market. Future prices received from the sale of oil, natural gas liquids, and natural gas may fluctuate as the result of market factors. The Company did not hedge any of its oil, natural gas liquids, or natural gas production for the period.

The following table outlines the Company's realized wellhead prices and industry benchmarks for the three and six month periods ended June 30, 2007:

Commodity Pricing	Three Months Ended June 30, 2007		Six Months Ended June 30, 2007	
	\$US	\$Cdn	\$US	\$Cdn
Oil and liquids				
Corporate Price (\$/bbl)		64.76		65.65
West Texas Intermediate (\$/bbl)	64.94		61.46	
Edmonton Par (\$/bbl)		72.62		70.19
Natural gas				
Corporate Price (\$/mcf)		7.31		7.48
AECO Daily Spot Price (\$/mcf)		7.06		7.24
Exchange Rates				
U.S./Cdn Dollar Average Exchange Rate		0.9104		0.8821

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Corporate average oil and natural gas liquids prices were 89.2% and 93.5% of Edmonton Par price for the three and six months ended June 30, 2007, respectively. Corporate average natural gas prices were 103.5% and 103.3% of AECO Daily Spot price for the three and six months ended June 30, 2007, respectively. A difference can be the result of quality (higher or lower API, higher or lower heat content), sour content, natural gas liquids included in reporting, and various other factors. Crocotta's differences are mainly as a result of lower priced natural gas liquids 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 pending demand for each particular product.

Transportation Expenses	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
Oil and liquids (\$/bbl)	0.65	0.73
Natural gas (\$/mcf)	0.14	0.16
Total (\$/boe)	0.77	0.85

Transportation expenses are third-party pipeline tariffs and trucking costs incurred to deliver the products to the purchasers at main hubs. The Company expects to have industry average transportation costs, as the current production and capital expenditure plans are located in West Central Alberta, Southern Alberta, and Northeast British Columbia.

Royalties	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
	\$	\$
Oil and liquids	69,297	85,189
Natural gas	114,049	162,583
Total royalties	183,346	247,772

Average Royalty Rate (% of sales)	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
Oil and liquids	11.1	9.2
Natural gas	17.8	18.6
Average royalty rate	14.5	13.8

Crude oil, natural gas liquids, and natural gas royalties totaled \$183,346 for the three months ended June 30, 2007. Year-to-date, crude oil, natural gas liquids, and natural gas royalties totaled \$247,772. For the three and six months ended June 30, 2007, the overall effective royalty rates were 14.5 percent and 13.8 percent, respectively, of the Company's total revenue from the sale of crude oil, natural gas liquids, and natural gas. The low oil and natural gas liquids royalty rate is due to a significant percentage of the Company's oil production currently being on a Crown royalty holiday, the majority of which is expected to be used up by August 2007, at which time the oil and natural gas liquids royalty rate will increase substantially.

Production Expenses	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
Oil and liquids (\$/bbl)	9.47	9.17
Natural gas (\$/mcf)	1.47	1.40
Total (\$/boe)	9.07	8.71

Per unit production expenses for the three months ended June 30, 2007 were \$9.07/boe (\$9.47/bbl of oil and natural gas liquids and \$1.47/mcf of natural gas). Year-to-date, per unit production expenses were \$8.71/boe (\$9.17/bbl of oil and natural gas liquids and \$1.40/mcf of natural gas). Production expenses increased by \$1.30/boe or 16.7% in Q2 2007 from \$7.77/boe in Q1 2007. Crocotta recognizes that controlling operating costs plays an integral role in the effective exploitation of reserves typically found today in the Western Canadian Sedimentary Basin. Crocotta is committed to focusing efforts on opportunities that will improve operational efficiencies and reduce per boe production expenses to enhance netbacks.

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Operating Netback	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
Oil and liquids (\$/bbl)		
Revenue	64.76	65.65
Royalties	7.18	6.06
Production expenses	9.47	9.17
Transportation expenses	0.65	0.73
Operating netback	47.46	49.69
Natural gas (\$/mcf)		
Revenue	7.31	7.48
Royalties	1.30	1.39
Production expenses	1.47	1.40
Transportation expenses	0.14	0.16
Operating netback	4.40	4.53
Combined (\$/boe) (6:1)		
Revenue	52.17	53.58
Royalties	7.56	7.39
Production expenses	9.07	8.71
Transportation expenses	0.77	0.85
Operating netback	34.77	36.63

The operating netback is a key indicator of an exploration and production company's ability to generate cash flow for reinvestment. For the three months ended June 30, 2007, Crocotta generated an operating netback of \$34.77/boe. Year-to-date, Crocotta generated and operating netback of \$36.63/boe.

The operating netback decreased \$6.72/boe or 16.2% in Q2 2007 from \$41.49/boe in Q1 2007. The decrease was a result of a decline in natural gas prices combined with an increase in royalties and production expenses, stemming from the higher per unit royalty and production expenses on the oil and natural gas assets acquired from Eastshore through the June 8, 2007 Plan of Arrangement.

General and Administrative Expenses ("G&A")	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
	\$	\$
G&A expenses (gross)	746,064	1,453,166
G&A capitalized	(99,400)	(200,364)
G&A recoveries	(13,807)	(48,929)
G&A expenses (net)	632,857	1,203,873
G&A expenses (\$/boe)	26.09	35.89

G&A totaled \$632,857 or \$26.09/boe for the three months ended June 30, 2007 and \$1,203,873 or \$35.89/boe for the six months ended June 30, 2007. The amount per boe is unusually high due to average production of only 186 boe/d and 267 boe/d, respectively, for the three and six months ended June 30, 2007. The Company expects per-unit G&A costs will decline significantly in Q3 2007 as production levels will include a full three months of production from the assets acquired from Eastshore on June 8, 2007.

Interest	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
	\$	\$
Interest income	114,571	229,419
Interest expense	(2,718)	(2,718)
Interest income (net)	111,853	226,701
Interest income (\$/boe)	4.61	6.76

Interest income totaled \$111,853 for the three months ended June 30, 2007, or \$4.61/boe. Year-to-date, interest income totaled \$226,701 or \$6.76/boe. Interest income amounts related to interest earned on funds raised through the November 2006 and May 2007 private placement issuances.

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Depletion, Depreciation and Accretion ("DD&A")	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
DD&A (\$)	635,529	891,160
DD&A (\$/boe)	26.20	26.57

DD&A expense totaled \$635,529 for the three months ended June 30, 2007 or \$26.20/boe. Year-to-date, DD&A expense totaled \$891,160 or \$26.57/boe. As at June 30, 2007, the cost of oil and natural gas properties includes approximately \$5,561,000 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. Included in the provision for DD&A for the three and six months ended June 30, 2007, respectively, are \$18,449 (\$0.76/boe) and \$36,899 (\$1.10/boe) for depreciation of office and other equipment and \$7,118 (\$0.29/boe) and \$10,072 (\$0.30/boe) for accretion of asset retirement obligations.

Stock-based Compensation	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
Stock-based compensation (\$)	26,004	44,864
Stock-based compensation (\$/boe)	1.07	1.34

For the three and six months ended June 30, 2007, stock-based compensation expense totaled \$26,004 or \$1.07/boe and \$44,864 or \$1.34/boe, respectively. During the six months ended June 30, 2007, 2,785,000 stock options and 7,025,000 warrants were issued to directors, officers, and employees of the Company.

Taxes

At June 30, 2007, the Company had approximately \$73.8 million in tax pools, losses, and share issue costs.

	June 30, 2007
	\$
Canadian oil and gas property expense (COGPE)	9,313,876
Canadian development expense (CDE)	11,523,363
Canadian exploration expense (CEE)	35,349,578
Undepreciated capital costs (UCC)	7,978,272
Non-capital losses carried forward	4,228,519
Capital losses carried forward	3,416,617
Share issue costs	2,010,720
Total pools, losses, and share issue costs	73,820,945

During the six months ended June 30, 2007, the Company had a future income tax recovery of \$727,320 relating to the renunciation of approximately \$2.5 million in flow-through share obligations.

Funds from Operations and Net Earnings

Funds from operations for the three and six months ended June 30, 2007 were \$322,820 (\$0.01 per share) and \$251,933 (\$0.01 per share), respectively. Net loss for the three months ended June 30, 2007 totaled \$338,713 (\$0.01 per share) and net earnings for the six months ended June 30, 2006 totaled \$43,229 (\$nil per share). Net earnings generated for the six months ended June 30, 2007 are due to a future income tax recovery resulting from the renunciation of approximately \$2.5 million in flow-through share obligations during the first quarter. The flow-through shares were issued in November 2006.

Capital Expenditures

On June 8, 2007, the Company closed a Plan of Arrangement whereby it acquired all of the issued and outstanding shares of Eastshore Energy Ltd. The following table details the purchase price allocation for the business combination:

Net assets acquired	Amount (\$)
Oil and natural gas properties and equipment	34,595,515
Working capital deficit	(3,698,673)
Asset retirement obligation	(706,681)
	30,190,161

Consideration of acquisition

Cash	8,480,289
Issuance of 17,246,106 common shares	21,557,633
Transaction costs	152,239
	30,190,161

The net cash consideration for the business combination was \$13,498,435, comprised of the original \$8,480,289 cash, transaction costs of \$152,239, and a negative cash balance of \$4,865,907 acquired from Eastshore.

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Net cash payments for capital expenditures are as follows:

	Three Months Ended	Six Months Ended
	June 30, 2007	June 30, 2007
	\$	\$
Land	13,851	38,849
Drilling, completions and workovers	786,204	2,527,689
Equipment	358,309	572,676
Geological and geophysical	257,521	510,628
	1,415,885	3,649,842

During the quarter, Crocotta drilled 1 (0.8 net) well resulting in 1 (0.8 net) oil well. Year-to-date, the Company drilled 3 (1.8 net) wells, resulting in 1 (0.50 net) gas well, 1 (0.8 net) oil well, and 1 (0.5 net) uneconomical well. The successful gas well was tied-in during the second quarter of 2007, while the successful oil well is expected to be tied in during the third quarter of 2007.

Liquidity and Capital Resources

Net cash and working capital was \$8,448,414 at June 30, 2007.

On June 8, 2007, the Company closed a Plan of Arrangement whereby it acquired all of the issued and outstanding shares of Eastshore Energy Ltd.

During the quarter, approximately 6.1 million series I special voting shares were exercised for common shares for proceeds of approximately \$6.1 million. The outstanding series I special voting shares related to a put and call obligation from November 2006. Upon exercise, the series I special voting shares were cancelled.

During the quarter, Crocotta issued approximately 3.2 million common shares on a flow-through basis at a price of \$1.55 per share for gross proceeds of approximately \$5.0 million. Crocotta also entered into put and call financing arrangements to issue 15.2 million common shares priced at \$1.25 per share for proceeds of \$19.0 million. As of August 10, 2007, no shares have been issued under the put and call financing arrangements.

Crocotta has a revolving operating demand loan credit facility available up to \$14.5 million bearing interest at prime plus 0.125% with a Canadian bank. The credit facility is secured by a \$35 million fixed and floating charge debenture on the assets of the Company and its 100% wholly-owned subsidiary. As of August 10, 2007, no amounts had been drawn on the credit facility.

Subsequent to quarter-end, the Company announced that it had entered into an arrangement (the "Arrangement") whereby it will acquire Diamond Tree Energy Ltd. ("Diamond Tree"), a public oil and natural gas company listed on the TSX. Under the terms of the Arrangement, Diamond Tree shareholders will receive 0.9527 of a Crocotta common share and 1.0 of a new exploration company common share. Crocotta will acquire approximately 1,500 boe/d of production for aggregate consideration of approximately \$67.4 million, payable through the issuance of approximately 24.0 million common shares at an assumed price of \$1.35 per share and the assumption of existing debt and working capital estimated to be \$35.0 million. The Arrangement is expected to close by mid-October 2007.

Crocotta entered into a financing arrangement with two institutional investors to issue approximately 9.3 million common shares priced at \$1.35 per share for gross proceeds of approximately \$12.5 million, contingent on the closing of the Arrangement. Crocotta has the option to raise an additional \$2.5 million at a price of \$1.35 per common share from one of the institutional investors.

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 current cash reserves, 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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Summary of Quarterly Results ⁽¹⁾

	Q4 2006	Q1 2007	Q2 2007
Number of producing days	47	90	91
	\$	\$	\$
Oil and natural gas sales	290,243	531,711	1,265,696
Funds from operations	(194,807)	(70,887)	322,820
per share - basic and diluted	(0.05)	-	0.01
Net earnings (loss)	(436,321)	381,942	(338,713)
per share - basic and diluted	(0.12)	0.02	(0.01)

(1) There are not eight quarters of information disclosed as the Company 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.

Outstanding Share Data

The Company is authorized to issue an unlimited number of voting common shares, an unlimited number of non-voting common shares, Class A and Class B preferred shares, issuable in series, and special voting shares, issuable in series. The voting common shares of the Company are not publicly listed or actively traded on any stock exchange. The following table summarizes the common shares outstanding and the number of shares exercisable into common shares from options, warrants, and other instruments:

	June 30, 2007	August 10, 2007
Voting common shares	50,536,107	50,536,107
Options	2,785,000	2,785,000
Warrants	7,025,000	7,025,000
Outstanding Put and Call Obligations ⁽¹⁾	15,200,000	15,200,000
Total	75,546,107	75,546,107

(1) See "Liquidity and Capital Resources" above.

Commitments

The Company is committed to payments under an operating lease for office space as follows:

	Amount (\$)
2007	338,549
2008	597,661
2009	597,661
2010	586,661
2011	488,884
	2,609,416

Critical Accounting Policies and Significant Estimates

Management is required to make judgments, assumptions, and estimates in the application of Canadian GAAP 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 for the accretion of discount and any changes to the underlying 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

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, *Comprehensive Income*, Section 3251, *Equity*, Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3861, *Financial Instruments – Disclosure and Presentation*, and Section 3865, *Hedges*, retroactively with no restatement of prior periods.

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.

Comprehensive Income

The new standards introduce comprehensive income, which consists of net earnings and other comprehensive income ("OCI"). Because the Company does not have any OCI, the Company's interim financial statements do not include a Statement of Comprehensive Income which would otherwise describe the components of comprehensive income. Accordingly, since there are no cumulative changes in OCI to be included in accumulated other comprehensive income ("AOCI"), the Company has not presented AOCI as a new category within shareholders' equity in the interim balance sheet and has not included a Statement of Accumulated Other Comprehensive Income, which would otherwise provide the continuity of the AOCI balance.

Financial Instruments

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurements in subsequent periods depend on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the standard.

Financial assets and financial liabilities classified as "held-for-trading" are measured at fair value with changes in those fair values recognized in net earnings. Financial assets classified as "available-for-sale" are measured at fair value, with changes in those fair values recognized in OCI. Financial assets classified as "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. The methods used by the Company in determining fair value of financial instruments are unchanged as a result of implementing the new standard.

Cash and cash equivalents are designated as "held-for-trading" and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable and deposits are designated as "loans and receivables" and accounts payable and accrued liabilities are designated as "other liabilities".

Risk management assets and liabilities are derivative financial instruments classified as "held-for-trading" unless designated for hedge accounting. The Company has no commodity financial contracts or fixed-price physical contracts in place at this time.

Section 1506 – Accounting Changes

Beginning January 1, 2007 the Company adopted Section 1506 "Accounting Changes," the only impact of which is to provide disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. This is the case with Section 3862, *Financial Instruments – Disclosures*, Section 3863, *Financial Instruments – Presentation*, and Section 1535, *Capital Disclosures*, which are required to be adopted for fiscal years beginning on or after October 1, 2007. The Company will adopt these standards on January 1, 2008 and it is expected the only effect on the Company will be incremental disclosures regarding the significance of financial instruments for the entity's financial position and performance, the nature, extent and management of risks arising from financial instruments to which the entity is exposed, and the policies and processes the Company uses for managing its capital.

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, 2006. 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 interim 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.

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

Crocotta Energy Inc.
Consolidated Balance Sheets
(Unaudited)

	As at June 30, 2007	As at December 31, 2006
	\$	\$
Assets		
Current assets:		
Cash and cash equivalents	7,665,420	15,847,815
Accounts receivable	3,088,388	965,233
Prepaid expenses and deposits	413,970	109,284
	11,167,778	16,922,332
Oil and natural gas properties and equipment (note 3)	46,936,325	9,522,916
	58,104,103	26,445,248
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	2,719,364	3,452,655
Asset retirement obligations (note 5)	930,033	173,173
Shareholders' equity:		
Capital stock (note 6)	55,762,651	24,224,491
Contributed surplus	53,897	-
Deficit	(1,361,842)	(1,405,071)
	54,454,706	22,819,420
Subsequent events (note 9)	58,104,103	26,445,248

See accompanying notes to the consolidated financial statements

Approved by the Board of Directors:

Director, "signed" Rob Zakresky

Director, "signed" Larry Moeller

Crocotta Energy Inc.
Consolidated Statements of Operations and Deficit
(Unaudited)

	Three months ended		Six months ended	
	June 30, 2007	May 31, 2006	June 30, 2007	May 31, 2006
	\$	\$	\$	\$
Revenue:				
Oil and natural gas sales	1,265,696	-	1,797,407	-
Transportation expense	(18,581)	-	(28,466)	-
Royalties	(183,346)	-	(247,772)	-
Interest income	111,853	-	226,701	-
	1,175,622	-	1,747,870	-
Expenses:				
Production	219,945	-	292,064	-
General and administrative	632,857	8,109	1,203,873	39,306
Interest	-	32,368	-	64,461
Depletion, depreciation and accretion	635,529	-	891,160	-
Stock-based compensation	26,004	-	44,864	-
	1,514,335	40,477	2,431,961	103,767
Net loss from continuing operations before taxes	(338,713)	(40,477)	(684,091)	(103,767)
Taxes:				
Future income tax (recovery) (note 6(b))	-	-	(727,320)	-
Net earnings (loss) from continuing operations	(338,713)	(40,477)	43,229	(103,767)
Net earnings from discontinued operations (note 7)	-	-	-	179,534
Net earnings (loss) and comprehensive income (loss)	(338,713)	(40,477)	43,229	75,767
Deficit, beginning of period	(1,023,129)	(968,750)	(1,405,071)	(1,084,994)
Deficit, end of period	(1,361,842)	(1,009,227)	(1,361,842)	(1,009,227)
Net earnings (loss) per share from continuing operations:				
Basic and diluted	(0.01)	(0.12)	-	(0.32)
Net earnings (loss) per share:				
Basic and diluted	(0.01)	(0.12)	-	0.23

See accompanying notes to the consolidated financial statements

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

	Three months ended		Six months ended	
	June 30, 2007	May 31, 2006	June 30, 2007	May 31, 2006
	\$	\$	\$	\$
Cash provided by (used in):				
Operating:				
Net earnings	(338,713)	(40,477)	43,229	75,767
Less: Net earnings from discontinued operations (note 7)	-	-	-	(179,534)
Net earnings (loss) from continuing operations	(338,713)	(40,477)	43,229	(103,767)
Items not affecting cash:				
Depletion, depreciation and accretion	635,529	-	891,160	-
Amortization of convertible debentures	-	19,064	-	38,128
Amortization of deferred financing costs	-	3,153	-	6,306
Stock-based compensation	26,004	-	44,864	-
Future income tax recovery	-	-	(727,320)	-
	322,820	(18,260)	251,933	(59,333)
Net change in non-cash working capital from continuing operations (note 8)	680,314	18,260	167,349	231,480
	1,003,134	-	419,282	172,147
Net change in non-cash working capital from discontinued operations (note 7)	-	-	-	(178,231)
	1,003,134	-	419,282	(6,084)
Financing:				
Issuance of capital stock	11,117,274	-	11,117,274	-
Share issue costs	(409,427)	-	(409,427)	-
	10,707,847	-	10,707,847	-
Investing:				
Business combination (note 2)	(13,498,435)	-	(13,498,435)	-
Purchase and development of oil and natural gas properties and equipment	(1,415,885)	-	(3,649,842)	-
Net change in non-cash investing working capital from continuing operations (note 8)	(748,583)	-	(2,161,247)	-
	(15,662,903)	-	(19,309,524)	-
Change in cash and cash equivalents	(3,951,922)	-	(8,182,395)	(6,084)
Cash and cash equivalents, beginning of period	11,617,342	41,558	15,847,815	47,642
Cash and cash equivalents, end of period	7,665,420	41,558	7,665,420	41,558

See accompanying notes to the consolidated financial statements

On August 16, 2005, Donner Minerals Ltd., the predecessor to Crocotta Energy Inc. ("Crocotta" or the "Company"), completed a reorganization, by way of statutory plan of arrangement, and restructured into two separate companies, Donner Metals Ltd. and Donner Minerals Ltd., which changed its name to Donner Petroleum Ltd., and subsequently to Crocotta Energy Inc. On November 15, 2006, the Company commenced active oil and natural gas operations with the acquisition of certain oil and natural gas properties from Chamaelo Exploration Ltd.

Effective December 31, 2006, the Company changed its fiscal year-end from February 28 to December 31. As a result, the interim consolidated financial statements prepared are as at and for the three and six months ended June 30, 2007, with comparative amounts for the three and six months ended May 31, 2006.

The Company is not publicly listed or actively traded on any stock exchange. The Company is engaged in the acquisition, development, exploration, and production of oil and natural gas reserves in Western Canada.

1. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

The interim consolidated financial statements of Crocotta have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the audited consolidated financial statements for the period ended December 31, 2006. The disclosures provided below are incremental to those included with the audited annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company's annual report for the period ended December 31, 2006.

b) Stock-based compensation

The Company has a stock-based compensation plan, which is described in note 5. The Company applies the fair value method for valuing stock options granted to officers, directors, employees and consultants. Under this method, compensation cost attributable to stock options granted to officers, directors, employees and consultants is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

c) New accounting standards

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, *Comprehensive Income*, Section 3251, *Equity*, Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3861, *Financial Instruments – Disclosure and Presentation*, and Section 3865, *Hedges*, retroactively with no restatement of prior periods.

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.

Comprehensive Income

The new standards introduce comprehensive income, which consists of net earnings and other comprehensive income ("OCI"). Because the Company does not have any OCI, the Company's interim financial statements do not include a Statement of Comprehensive Income which would otherwise describe the components of comprehensive income. Accordingly, since there are no cumulative changes in OCI to be included in accumulated other comprehensive income ("AOCI"), the Company has not presented AOCI as a new category within shareholders' equity in the interim balance sheet and has not included a Statement of Accumulated Other Comprehensive Income, which would otherwise provide the continuity of the AOCI balance.

Financial Instruments

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurements in subsequent periods depend on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the standard.

Financial assets and financial liabilities classified as "held-for-trading" are measured at fair value with changes in those fair values recognized in net earnings. Financial assets classified as "available-for-sale" are measured at fair value, with changes in those fair values recognized in OCI. Financial assets classified as "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. The methods used by the Company in determining fair value of financial instruments are unchanged as a result of implementing the new standard.

Cash and cash equivalents are designated as “held-for-trading” and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable and deposits are designated as “loans and receivables” and accounts payable and accrued liabilities are designated as “other liabilities”.

Risk management assets and liabilities are derivative financial instruments classified as “held-for-trading” unless designated for hedge accounting. The Company has no commodity financial contracts or fixed-price physical contracts in place at this time.

Section 1506 – Accounting Changes

Beginning January 1, 2007 the Company adopted Section 1506 “Accounting Changes” the only impact of which is to provide disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. This is the case with Section 3862, *Financial Instruments – Disclosures*, Section 3863, *Financial Instruments – Presentation*, and Section 1535, *Capital Disclosures*, which are required to be adopted for fiscal years beginning on or after October 1, 2007. The Company will adopt these standards on January 1, 2008 and it is expected the only effect on the Company will be incremental disclosures regarding the significance of financial instruments for the entity’s financial position and performance, the nature, extent and management of risks arising from financial instruments to which the entity is exposed, and the policies and processes the Company uses for managing its capital.

2. PLAN OF ARRANGEMENT

On June 8, 2007, the Company closed a Plan of Arrangement whereby it acquired all of the issued and outstanding shares of Eastshore Energy Ltd. (“Eastshore”). The following table details the purchase price allocation for the business combination, which is subject to final adjustments:

Net assets acquired	Amount (\$)
Oil and natural gas properties and equipment	34,595,515
Working capital deficit	(3,698,673)
Asset retirement obligation	(706,681)
	30,190,161
Consideration of acquisition	
Cash	8,480,289
Issuance of 17,246,106 common shares	21,557,633
Transaction costs	152,239
	30,190,161

The net cash consideration for the business combination was \$13,498,435 comprised of the original \$8,480,289 cash, transaction costs of \$152,239, and a negative cash balance of \$4,865,907 acquired from Eastshore.

3. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT

	Cost	Accumulated Depletion and Depreciation	Net Book Value
	\$	\$	\$
Oil and natural gas properties	47,725,646	961,515	46,764,131
Office and other equipment	221,393	49,199	172,194
	47,947,039	1,010,714	46,936,325

As at June 30, 2007, the cost of oil and natural gas properties includes approximately \$5,561,000 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, 2007, the provision for depletion, depreciation and accretion includes \$7,118 and \$10,072, respectively, for accretion of asset retirement obligations. During the three and six months ended June 30, 2007, the Company capitalized \$99,400 and \$200,364, respectively, of general and administrative costs.

Crocotta Energy Inc.
Notes to the Consolidated Financial Statements
Three and six months ended June 30, 2007

The Company performed an impairment test calculation at June 30, 2007 to assess the recoverable value of the oil and natural gas properties. The oil and natural gas future prices are based on July 1, 2007 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 June 30, 2007.

Year	WTI Oil (\$US/bbl)	Foreign Exchange Rate	Edmonton Light Crude Oil (\$Cdn/bbl)	AECO Gas (\$Cdn/mmbtu)
2007	66.00	0.930	70.00	6.94
2008	65.00	0.930	68.93	7.17
2009	63.00	0.930	66.77	7.28
2010	61.00	0.930	64.62	7.31
2011	60.50	0.930	64.09	7.37
2012	60.72	0.930	64.32	7.63
2013	61.94	0.930	65.63	7.75
2014	63.18	0.930	66.97	7.95
2015	64.44	0.930	68.32	8.12
2016	65.73	0.930	69.71	8.29
2017	67.05	0.930	71.10	8.46
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 \$14.5 million bearing interest at prime plus 0.125% with a Canadian bank. The credit facility is secured by a \$35 million fixed and floating charge debenture on the assets of the Company and its 100% wholly-owned subsidiary. At June 30, 2007, no amounts had been drawn on the credit facility.

5. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from net ownership interests in oil and natural gas properties including well sites, gathering systems, and processing facilities. The Company estimates the total undiscounted amount of cash flows (adjusted for inflation at 2% per year) required to settle its asset retirement obligations is approximately \$2,655,000 which is estimated to be incurred between 2007 and 2027. 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:

	Amount (\$)
Balance at December 31, 2006	173,173
Liabilities acquired upon Plan of Arrangement (note 2)	706,681
Liabilities incurred in period	40,107
Accretion expense	10,072
Balance at June 30, 2007	930,033

6. CAPITAL STOCK

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.
 Special voting shares, issuable in series.

b) Issued and outstanding:

	Number	Amount (\$)
Voting common shares		
Balance at December 31, 2006	23,940,001	24,224,491
Conversion of special shares	6,110,000	6,110,000
Issued upon Plan of Arrangement (note 2)	17,246,106	21,557,633
Conversion of special warrants issued May 8, 2007	3,240,000	5,007,274
Share issue costs	-	(409,427)
Future tax effect of flow-through share renunciation	-	(727,320)
Balance at June 30, 2007	50,536,107	55,762,651

During the six months ended June 30, 2007, the Company renounced approximately \$2.5 million in flow-through share obligations, relating to flow-through share issuances in November 2006. The Company issued an additional 3,240,000 common shares on a flow-through basis during the three months ended June 30, 2007.

c) Warrants

The Company has an arrangement that allows performance 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 7,212,000, representing 24% of the total outstanding common shares and special voting shares as at February 28, 2007. Performance warrants granted vest over three years and have escalated exercise prices, ranging from \$1.25 per share to \$2.25 per share. No performance factors are required other than meeting the exercise price. During the six months ended June 30, 2007, the Company authorized the issuance of 7,025,000 performance warrants as outlined below:

	Number of Warrants	Weighted Average Price (\$)	Expiry Date
Performance Warrants			
- issued at \$1.25 per share	2,241,666	1.25	December 23, 2009
- issued at \$1.50 per share	2,341,667	1.50	December 23, 2009
- issued at \$1.75 per share	100,000	1.75	December 23, 2009
- issued at \$2.00 per share	2,241,667	2.00	December 23, 2009
- issued at \$2.25 per share	100,000	2.25	December 23, 2009
	7,025,000	1.59	

The fair value of the performance warrants at the date of issue was estimated to be \$nil using the Black-Scholes option pricing model.

d) Stock options

During the six months ended June 30, 2007, the Company authorized the issuance of 2,785,000 common shares at exercise prices ranging from \$1.00 per share to \$1.25 per share under a stock option plan enabling certain directors, officers, and employees to purchase common shares. The Company has reserved for issuance 5,053,611 common shares for this purpose, representing 10% of total issued and outstanding common shares. The Company will not issue options exceeding 10% of the total common shares outstanding at the time of the option grants. The options vest over a period of three years and have a term of five years. The options have expiry dates ranging from January 23, 2012 to June 27, 2012.

The Company had the following stock options outstanding at June 30, 2007:

	Number of Options	Weighted Average Price (\$)	Weighted Average Years to Expiry
Balance at December 31, 2006	-	-	-
Options granted	2,785,000	1.01	4.52
Balance at June 30, 2007	2,785,000	1.01	4.52
Exercisable at June 30, 2007	-	-	-

e) Stock-based compensation

The compensation cost recognized during the three months ended June 30, 2007 was \$31,240, of which \$26,004 has been charged against income and \$5,236 has been capitalized. For the six months ended June 30, 2007, the compensation cost recognized for the stock option plan was \$53,897, of which \$44,864 has been charged against income and \$9,033 has been capitalized.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
Fair value per option	\$0.14	\$0.14
Risk-free rate	4.1%	4.1%
Expected life	4.0 years	4.0 years
Expected volatility	0.0%	0.0%
Dividend yield	-	-

f) Special voting shares

On June 5, 2007, 6,110,000 series I special voting shares, relating to the outstanding put and call obligation at December 31, 2006, were exercised and converted into an equivalent number of voting common shares. The special voting shares were cancelled upon exercise.

g) Put and call obligation

During the quarter, Crocotta entered into put and call financing arrangements to issue 15.2 million common shares priced at \$1.25 per share for proceeds of \$19.0 million. No shares have been issued under the put and call financing arrangements.

h) 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, 2007	Six Months Ended June 30, 2007
Basic and diluted	30,685,500	27,331,385

For the three and six months ended June 30, 2007, the Company excluded from the weighted average calculation 15,200,000 common shares issuable from outstanding put and call obligations, 2,785,000 common shares issuable from stock options, and 7,025,000 common shares issuable from warrants as the effect of these was not dilutive.

7. DISCONTINUED OPERATIONS

On August 16, 2005, Donner Minerals Ltd., the predecessor to Crocotta, completed a reorganization, by way of statutory plan of arrangement, and restructured into two separate companies, Donner Metals Ltd. and Donner Minerals Ltd., which changed its name to Donner Petroleum Ltd. and subsequently to Crocotta Energy Inc. As a result of the reorganization and the lack of continuing operations, the Company's consolidated financial statements for the six months ended May 31, 2006 segregated items prior to and subsequent to the reorganization. For purposes of the comparative period financial statements of Crocotta for the six months ended June 30, 2007, all items disclosed as prior to restructuring in the consolidated financial statements for the six months ended May 31, 2006 have been reclassified as discontinued operations.

8. SUPPLEMENTAL CASH FLOW INFORMATION

a) Net change in non-cash working capital

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
	\$	\$
Accounts receivable	(1,269,063)	(2,123,155)
Prepaid expenses and deposits	(73,722)	(304,686)
Accounts payable and accrued liabilities	107,282	(733,291)
Non-cash working capital acquired on Plan of Arrangement (note 2)	1,167,234	1,167,234
Net change in non-cash working capital	(68,269)	(1,993,898)
Relating to:		
Operating	680,314	167,349
Investing	(748,583)	(2,161,247)
Net change in non-cash working capital	(68,269)	(1,993,898)

b) Interest and taxes

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
	\$	\$
Cash interest received	114,571	229,419
Cash interest paid	(2,718)	(2,718)
Net cash interest received	111,853	226,701
Cash taxes paid	-	-

9. SUBSEQUENT EVENTS

Subsequent to quarter-end, the Company announced that it had entered into an arrangement (the "Arrangement") whereby it will acquire Diamond Tree Energy Ltd. ("Diamond Tree"), a public oil and natural gas company listed on the TSX. Under the terms of the Arrangement, Diamond Tree shareholders will receive 0.9527 of a Crocotta common share and 1.0 of a new exploration company common share. The aggregate consideration for the transaction is expected to be approximately \$67.4 million, payable through the issuance of approximately 24.0 million common shares at an assumed price of \$1.35 per share and the assumption of existing debt and working capital estimated to be \$35.0 million. The Arrangement is expected to close by mid-October 2007.

Crocotta entered into a financing arrangement with two institutional investors to issue approximately 9.3 million common shares priced at \$1.35 per share for gross proceeds of approximately \$12.5 million, contingent on the closing of the Arrangement. Crocotta has the option to raise an additional \$2.5 million at a price of \$1.35 per common share from one of the institutional investors.

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



Crocotta Energy Inc.

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Forward-Looking Statements

This Interim Report 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