



Press Release

Q3 2009 Financial and Operating Results

FOR IMMEDIATE RELEASE – November 10, 2009

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

HIGHLIGHTS

- On August 13, 2009, Crocotta acquired all of the issued and outstanding shares of Salvo Energy Corporation ("Salvo"). Salvo had oil and natural gas assets located in West Central Alberta that produced approximately 1,550 boe/d at the time of closing of the acquisition. Consideration for the acquisition was approximately \$77.8 million, consisting of the issuance of approximately 19.9 million Crocotta common shares and the assumption of approximately \$54.2 million in net debt.

FINANCIAL	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	% Change	2009	2008	% Change
(\$000s, except per share amounts)						
Oil and natural gas sales	8,649	13,547	(36)	22,069	45,739	(52)
Funds from operations ⁽¹⁾	1,752	7,724	(77)	5,353	27,144	(80)
per share - basic and diluted	0.03	0.23	(87)	0.11	0.82	(87)
Net earnings (loss)	(3,919)	1,232	(418)	(10,417)	5,486	(290)
per share - basic and diluted	(0.06)	0.04	(250)	(0.22)	0.17	(229)
Capital expenditures	492	18,144	(97)	10,755	39,916	(73)
Corporate acquisition	84,315	-	100	84,315	-	100
Property acquisitions	-	-	-	2,442	-	100
Property dispositions	(696)	-	100	(866)	(4,752)	(82)
Net debt ⁽²⁾				82,754	19,650	321
Common shares outstanding (000s)						
weighted average - basic	54,584	33,045	65	47,557	33,045	44
weighted average - diluted	54,584	33,045	65	47,557	33,045	44
end of period - basic				63,884	33,045	93
end of period - diluted				72,360	38,519	88

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

(2) Net debt includes current liabilities (including the revolving credit facility and secured bridge facility and excluding the risk management contracts) less current assets.

OPERATING	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	% Change	2009	2008	% Change
Number of producing days	92	92		273	274	
Daily production						
Oil and liquids - (bbls/d)	1,000	767	30	835	827	1
Natural gas - (mcf/d)	10,005	7,438	35	8,538	8,353	2
Oil equivalent - (boe/d @ 6:1)	2,668	2,007	33	2,258	2,219	2
Revenue						
Oil and liquids - (\$/bbl)	60.81	108.36	(44)	55.01	106.25	(48)
Natural gas - (\$/mcf)	3.32	8.63	(62)	4.09	9.46	(57)
Oil equivalent - (boe/d @ 6:1)	35.25	73.40	(52)	35.80	75.22	(52)
Royalties						
Oil and liquids - (\$/bbl)	21.57	26.39	(18)	17.97	24.46	(27)
Natural gas - (\$/mcf)	0.11	1.32	(92)	0.13	1.64	(92)
Oil equivalent - (boe/d @ 6:1)	8.50	14.98	(43)	7.15	15.29	(53)
Production expenses						
Oil and liquids - (\$/bbl)	8.57	8.01	7	8.56	8.26	4
Natural gas - (\$/mcf)	1.96	1.85	6	2.09	1.71	22
Oil equivalent - (boe/d @ 6:1)	10.56	9.90	7	11.06	9.50	16
Transportation expenses						
Oil and liquids - (\$/bbl)	1.30	1.19	9	1.69	1.33	27
Natural gas - (\$/mcf)	0.17	0.15	13	0.18	0.15	20
Oil equivalent - (boe/d @ 6:1)	1.12	1.00	12	1.29	1.07	21
Operating netback ⁽¹⁾						
Oil and liquids - (\$/bbl)	29.37	72.77	(60)	26.79	72.20	(63)
Natural gas - (\$/mcf)	1.08	5.31	(80)	1.69	5.96	(72)
Oil equivalent - (boe/d @ 6:1)	15.07	47.52	(68)	16.30	49.36	(67)
Realized loss (gain) on risk management contracts - (\$/boe)	(0.02)	-	100	(0.01)	-	100
Unrealized loss (gain) on risk management contracts - (\$/boe)	3.38	-	100	1.35	-	100
General and administrative expenses - (\$/boe)	4.10	4.83	(15)	5.46	4.06	34
Interest expense (income) - (\$/boe)	3.85	0.85	353	2.17	0.66	229
Depletion, depreciation, and accretion - (\$/boe)	23.68	31.63	(25)	28.34	31.13	(9)
Stock-based compensation - (\$/boe)	1.08	1.04	4	1.21	0.85	42
Future income tax expense (recovery) - (\$/boe)	(5.04)	2.50	(302)	(5.31)	3.64	(246)
Net earnings (loss) - (\$/boe)	(15.96)	6.67	(339)	(16.91)	9.02	(287)

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

Operations Update

In Q309, Crocotta closed the acquisition of Salvo Energy Corporation ("Salvo") that materially increased its exposure to the West Central area of Alberta and more specifically the emerging Bluesky and Notikewin horizontal plays. Crocotta has identified numerous recompletions, workovers, horizontal drills and vertical drills on the acquired lands to add to its depth of projects.

During the quarter, operations were very quiet as natural gas prices continued to trend lower in the summer and available capital resources were focused on closing the acquisition. Subsequent to the acquisition, Crocotta hired an advisor to publicly market certain properties totaling approximately 1,300 boepd for sale to reduce corporate debt levels which will allow for a more aggressive drilling program on a go forward basis.

We will be looking for the direction of natural gas prices over the next few weeks as weather will be the primary driver for natural gas prices. The high natural gas storage level will need to be drawn down at a reasonable pace prior to year-end for prices to stabilize higher than the current spot market. Over the longer term, prices for natural gas should still trend higher as drilling continues to be at low levels in both Canada and the United States. Crocotta will set budget levels for 2010 once we have a clearer direction on natural gas prices.

While the level of capital spending from now through 2010 is not yet determined, the focus for the company is set. We will look to prove up 3 separate Montney plays in Northeast British Columbia and start the horizontal Bluesky development at Edson. Each one of these projects would have a material impact on the value and growth of Crocotta. A vertical Montney test will commence in early December at Dawson and a Bluesky horizontal at Edson is scheduled for Q110.

Management's Discussion and Analysis

November 5, 2009

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

The MD&A should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the three and nine months ended September 30, 2009 and the audited annual financial statements and notes thereto for the year ended December 31, 2008. 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 ("GAAP") in Canadian currency (except where noted as being in another currency).

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

BOE Conversions

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

Non-GAAP Measures

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

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Forward-Looking Information

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

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

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

Summary of Financial Results	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	% Change	2009	2008	% Change
(\$000s, except per share amounts)						
Oil and natural gas sales	8,649	13,547	(36)	22,069	45,739	(52)
Funds from operations	1,752	7,724	(77)	5,353	27,144	(80)
per share - basic and diluted	0.03	0.23	(87)	0.11	0.82	(87)
Net earnings (loss)	(3,919)	1,232	(418)	(10,417)	5,486	(290)
per share - basic and diluted	(0.06)	0.04	(250)	(0.22)	0.17	(229)
Total assets				267,408	161,101	66
Net debt ⁽¹⁾				82,754	19,650	321

(1) Net debt includes current liabilities (including the revolving credit facility and secured bridge facility and excluding the risk management contracts) less current assets.

Summary of Quarterly Results

	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007
Number of producing days	92	91	90	92	92	91	91	92
(\$000s, except per share amounts)								
Oil and natural gas sales	8,649	6,358	7,062	8,729	13,547	19,255	12,937	9,994
Funds from operations	1,752	1,884	1,717	3,463	7,724	11,953	7,467	4,997
per share - basic and diluted	0.03	0.04	0.04	0.09	0.23	0.36	0.23	0.16
Net earnings (loss)	(3,919)	(3,193)	(3,305)	(2,511)	1,232	3,446	808	(523)
per share - basic and diluted	(0.06)	(0.07)	(0.08)	(0.07)	0.04	0.10	0.02	(0.02)

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

Production	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	% Change	2009	2008	% Change
Average Daily Production						
Oil and NGLs (bbls/d)	1,000	767	30	835	827	1
Natural gas (mcf/d)	10,005	7,438	35	8,538	8,353	2
Total (boe/d)	2,668	2,007	33	2,258	2,219	2

Daily production for the three months ended September 30, 2009 increased 33% to 2,668 boe/d compared to 2,007 boe/d for the comparative period in 2008. Year-to-date, daily production increased 2% to 2,258 boe/d from 2,219 boe/d for the nine months ended September 30, 2008. The increase in production was a result of the acquisition of Salvo Energy Corporation ("Salvo") on August 13, 2009 (see "Capital Expenditures"), which was producing approximately 1,550 boe/d at the date of acquisition.

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

Revenue (\$000s)	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	% Change	2009	2008	% Change
Oil and NGLs	5,593	7,642	(27)	12,538	24,079	(48)
Natural gas	3,056	5,905	(48)	9,531	21,660	(56)
Total revenue	8,649	13,547	(36)	22,069	45,739	(52)
Average Sales Price						
Oil and NGLs (\$/bbl)	60.81	108.36	(44)	55.01	106.25	(48)
Natural gas (\$/mcf)	3.32	8.63	(62)	4.09	9.46	(57)
Average sales price (\$/boe)	35.25	73.40	(52)	35.80	75.22	(52)

Revenue totaled \$8.6 million for the third quarter of 2009, down significantly from \$13.5 million for the third quarter of 2008. Year-to-date, revenue decreased significantly to \$22.1 million in 2009, compared to \$45.7 million in 2008. The decrease in revenue was due to a significant decrease in oil, NGLs, and natural gas commodity prices in the first nine months of 2009 compared to the same period in 2008. This decrease was partially offset in the third quarter by the increase in production as a result of the acquisition of Salvo.

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

Commodity Pricing	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	% Change	2009	2008	% Change
Oil and NGLs						
Corporate Price (\$Cdn/bbl)	60.81	108.36	(44)	55.01	106.25	(48)
West Texas Intermediate (\$US/bbl)	68.19	118.21	(42)	56.85	113.34	(50)
Edmonton Par (\$Cdn/bbl)	71.71	122.61	(42)	62.69	115.86	(46)
Natural gas						
Corporate Price (\$Cdn/mcf)	3.32	8.63	(62)	4.09	9.46	(57)
AECO Daily Spot Price (\$Cdn/mcf)	2.94	7.72	(62)	3.78	8.63	(56)
Exchange Rates						
U.S./Cdn. Dollar Average Exchange Rate	0.8784	0.9604	(9)	0.8580	0.9822	(13)

Corporate average oil and NGLs prices were 84.8% and 87.7% of Edmonton Par price for the three and nine months ended September 30, 2009, respectively. Corporate average natural gas prices were 112.9% and 108.2% of AECO Daily Spot price for the three and nine months ended September 30, 2009, respectively. Differences between corporate and benchmark prices can be a result of quality (higher or lower API, higher or lower heat content), sour content, NGLs included in reporting, and various other factors. Crocotta's differences are mainly the result of lower priced NGLs included in oil price reporting and higher heat content natural gas production that is priced higher than AECO Daily Spot. Note that these differences change on a monthly basis depending on demand for each particular product.

Future prices received from the sale of the products may fluctuate as the result of market factors. Other than noted below, the Company did not hedge any of its oil, NGLs or natural gas production in the first nine months of 2009. Beginning September 2009, the Company entered into hedges in the form of monthly settled puts ("Floors") as detailed below.

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

For the three and nine months ended September 30, 2009, the realized gain on the risk management contracts was virtually \$nil and the unrealized loss on the risk management contracts was \$0.8 million. The fair value of these risk management contracts at September 30, 2009 was a liability of \$0.8 million.

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Royalties (\$000s)	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	% Change	2009	2008	% Change
Oil and NGLs	1,984	1,861	7	4,097	5,543	(26)
Natural gas	101	903	(89)	311	3,752	(92)
Total royalties	2,085	2,764	(25)	4,408	9,295	(53)
Average Royalty Rate (% of sales)						
Oil and NGLs	35.5	24.4	45	32.7	23.0	42
Natural gas	3.3	15.3	(78)	3.3	17.3	(81)
Average royalty rate	24.1	20.4	18	20.0	20.3	(1)

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

For the three months ended September 30, 2009, oil, NGLs, and natural gas royalties decreased 25% to \$2.1 million compared to \$2.8 million for the comparative period. Year-to-date, oil, NGLs, and natural gas royalties decreased 53% to \$4.4 million compared to \$9.3 million in the prior period. The decrease was a result of a decrease in revenue stemming from a significant decline in oil, NGLs, and natural gas commodity prices, combined with favorable prior period adjustments to the annual capital cost and processing fee deductions and an increase in the monthly capital cost and processing fee deductions for the remainder of 2009.

The overall effective royalty rate was 24.1% for the three months ended September 30, 2009, compared to 20.4% for the quarter ended September 30, 2008. Year-to-date, the overall effective royalty rate was 20.0% in 2009 compared to 20.3% in 2008. The effective oil and NGLs royalty rates for the three and nine months ended September 30, 2009 increased 45% and 42%, respectively, compared to the three and nine months ended September 30, 2008 as a result of the implementation of the new Alberta Royalty Framework. The effective natural gas royalty rates for the three and nine months ended September 30, 2009 decreased significantly compared to the three and nine months ended September 30, 2008 as a result of the significant decline in natural gas commodity prices combined with favorable prior period adjustments to the annual capital cost and processing fee deductions and an increase in the monthly capital cost and processing fee deductions.

Production Expenses	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	% Change	2009	2008	% Change
Oil and NGLs (\$/bbl)	8.57	8.01	7	8.56	8.26	4
Natural gas (\$/mcf)	1.96	1.85	6	2.09	1.71	22
Total (\$/boe)	10.56	9.90	7	11.06	9.50	16

Per unit production expenses for the three and nine months ended September 30, 2009 were \$10.56/boe and \$11.06/boe, respectively, up 7% and 16% from the comparative periods ended September 30, 2008. The increase in per unit production expenses is mainly due to higher production expenses associated with the corporate acquisitions in Q4 2008 and the acquisition of Salvo in Q3 2009.

Transportation Expenses	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	% Change	2009	2008	% Change
Oil and NGLs (\$/bbl)	1.30	1.19	9	1.69	1.33	27
Natural gas (\$/mcf)	0.17	0.15	13	0.18	0.15	20
Total (\$/boe)	1.12	1.00	12	1.29	1.07	21

Transportation expenses are mainly third-party pipeline tariffs incurred to deliver the products to the purchasers at main hubs. Transportation expenses increased as a result of higher natural gas and NGLs transportation costs incurred on the Dawson Montney well which came on production at the end of Q1 2009 combined with an increase in NGLs transportation costs relating to an adjustment for prior period expenses on one of the Company's wells.

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Operating Netback	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	% Change	2009	2008	% Change
Oil and NGLs (\$/bbl)						
Revenue	60.81	108.36	(44)	55.01	106.25	(48)
Royalties	21.57	26.39	(18)	17.97	24.46	(27)
Production expenses	8.57	8.01	7	8.56	8.26	4
Transportation expenses	1.30	1.19	9	1.69	1.33	27
Operating netback	29.37	72.77	(60)	26.79	72.20	(63)
Natural gas (\$/mcf)						
Revenue	3.32	8.63	(62)	4.09	9.46	(57)
Royalties	0.11	1.32	(92)	0.13	1.64	(92)
Production expenses	1.96	1.85	6	2.09	1.71	22
Transportation expenses	0.17	0.15	13	0.18	0.15	20
Operating netback	1.08	5.31	(80)	1.69	5.96	(72)
Combined (\$/boe) (6:1)						
Revenue	35.25	73.40	(52)	35.80	75.22	(52)
Royalties	8.50	14.98	(43)	7.15	15.29	(53)
Production expenses	10.56	9.90	7	11.06	9.50	16
Transportation expenses	1.12	1.00	12	1.29	1.07	21
Operating netback	15.07	47.52	(68)	16.30	49.36	(67)

During the third quarter of 2009, Crocotta generated an operating netback of \$15.07/boe, down 68% from \$47.52/boe for the third quarter of 2008. Year-to-date, the Company generated an operating netback of \$16.30/boe, down 67% from \$49.36/boe for the comparative period in 2008. The decrease was mainly due to a significant decline in oil, NGLs, and natural gas commodity prices, which was partially offset by a corresponding decrease in royalties.

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

(\$/boe)	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	% Change	2009	2008	% Change
Operating netback	15.07	47.52	(68)	16.30	49.36	(67)
Realized loss (gain) on risk management contracts	(0.02)	-	100	(0.01)	-	100
Unrealized loss (gain) on risk management contracts	3.38	-	100	1.35	-	100
General and administrative expenses	4.10	4.83	(15)	5.46	4.06	34
Interest expense	3.85	0.85	353	2.17	0.66	229
Depletion, depreciation, and accretion	23.68	31.63	(25)	28.34	31.13	(9)
Stock-based compensation	1.08	1.04	4	1.21	0.85	42
Future income tax expense (recovery)	(5.04)	2.50	(302)	(5.31)	3.64	(246)
Net earnings (loss)	(15.96)	6.67	(339)	(16.91)	9.02	(287)

General and Administrative Expenses (\$000s)	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	% Change	2009	2008	% Change
G&A expenses (gross)	1,261	1,105	14	4,123	3,155	31
G&A capitalized	(169)	(124)	36	(567)	(366)	55
G&A recoveries	(85)	(91)	(7)	(193)	(322)	(40)
G&A expenses (net)	1,007	890	13	3,363	2,467	36
G&A expenses (\$/boe)	4.10	4.83	(15)	5.46	4.06	34

General and administrative expenses ("G&A") decreased to \$4.10/boe for the third quarter of 2009 compared to \$4.83/boe for the quarter ended September 30, 2008. G&A increased 34% to \$5.46/boe for the nine months ended September 30, 2009 from \$4.06/boe for the nine months ended September 30, 2008. The increase for the nine months ended September 30, 2009 was due to higher G&A costs, mainly related to higher employment costs, spread over relatively the same production volumes.

Interest (\$000s)	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	% Change	2009	2008	% Change
Interest expense	946	156	506	1,372	412	233
Interest income	-	-	-	(33)	(11)	200
Net interest expense	946	156	506	1,339	401	234
Interest expense (\$/boe)	3.85	0.85	353	2.17	0.66	229

Interest expense amounts relate mainly to interest incurred on amounts drawn from the Company's credit facility and amounts drawn on the Company's secured bridge facility (see "Liquidity and Capital Resources"), which was obtained as a result of the acquisition of Salvo. The increase in interest expense correlates to the increase in amounts drawn on the revolving credit facility and amounts drawn on the secured bridge facility.

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Depletion, Depreciation and Accretion	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	% Change	2009	2008	% Change
DD&A (\$000s)	5,811	5,839	-	17,471	18,931	(8)
DD&A (\$/boe)	23.68	31.63	(25)	28.34	31.13	(9)

Depletion, depreciation and accretion ("DD&A") decreased 25% to \$23.68/boe for the quarter ended September 30, 2009 compared to \$31.63/boe for the quarter ended September 30, 2008. Year-to-date, DD&A decreased 9% to \$28.34/boe compared to \$31.13 for the comparative period in 2008. The decrease in DD&A was due to a significant increase in proved reserves as a result of the acquisition of Salvo during the quarter. The provision for DD&A for the three and nine months ended September 30, 2009 includes \$0.1 million (2008 – \$0.1 million) and \$0.3 million (2008 - \$0.2 million), respectively, for accretion of asset retirement obligations and \$0.1 million (2008 – \$0.1 million) and \$0.1 million (2008 - \$0.1 million), respectively, for amortization of equipment under capital lease.

Stock-based Compensation	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	% Change	2009	2008	% Change
Stock-based compensation (\$000s)	266	193	38	744	516	44
Stock-based compensation (\$/boe)	1.08	1.04	4	1.21	0.85	42

The Company grants stock options to officers, directors, employees and consultants and calculates the related stock-based compensation using the Black-Scholes option-pricing model. The Company recognizes the expense over the vesting period of the stock options. The increase in stock-based compensation in 2009 compared to 2008 is a result of the issuance of 1.0 million stock options in January 2009 and 2.0 million options in September 2009.

Taxes

At September 30, 2009, the Company had approximately \$246.0 million in effective tax pools, losses, and share issue costs.

	September 30, 2009	September 30, 2008	% Change
(\$000s)			
Canadian oil and gas property expense (COGPE)	51,563	13,192	291
Canadian development expense (CDE)	45,704	27,396	67
Canadian exploration expense (CEE)	83,859	59,626	41
Undepreciated capital costs (UCC)	40,704	24,535	66
Non-capital losses carried forward	27,478	1,125	2,342
Capital losses carried forward	1,796	1,796	-
Share issue costs	2,002	1,535	30
Valuation allowance	(7,121)	-	100
Total pools, losses, and share issue costs	245,985	129,205	90

Funds from Operations

Funds from operations for the three months ended September 30, 2009 was \$1.8 million (\$0.03 per diluted share) compared to \$7.7 million (\$0.23 per diluted share) for the three months ended September 30, 2008. Year-to-date, funds from operations was \$5.4 million (\$0.11 per diluted share) in 2009 compared to \$27.1 million (\$0.82 per diluted share) in 2008. The decrease was a result of significantly lower oil, NGLs, and natural gas commodity prices in the first nine months of 2009 compared to 2008.

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

	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	% Change	2009	2008	% Change
Funds from operations (non-GAAP)	1,752	7,724	(77)	5,353	27,144	(80)
Asset retirement expenditures	(45)	-	100	(45)	-	100
Change in non-cash working capital	1,381	1,734	(20)	1,315	(312)	521
Cash flow from operating activities (GAAP)	3,088	9,458	(67)	6,623	26,832	(75)

Net Earnings (Loss)

The Company had a net loss of \$3.9 million (\$0.06 per diluted share) for the three months ended September 30, 2009 compared to net earnings of \$1.2 million (\$0.04 per diluted share) for the three months ended September 30, 2008. Year-to-date, the Company had a net loss of \$10.4 million (\$0.22 per diluted share) in 2009 compared to net earnings of \$5.5 million (\$0.17 per diluted share) in 2008. The net loss arose mainly as a result of a significant decrease in revenue due to a significant decrease in oil, NGLs, and natural gas commodity prices.

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

Capital Expenditures

Net capital expenditures for the three and nine months ended September 30, 2009 were \$84.1 million and \$96.6 million, respectively, compared to \$18.1 million and \$35.2 million for the three and nine months ended September 30, 2008, respectively.

(\$000s)	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	% Change	2009	2008	% Change
Land	(73)	11,170	(101)	785	13,330	(94)
Drilling, completions, and workovers	303	6,147	(95)	6,804	20,517	(67)
Equipment	11	242	(95)	2,361	4,189	(44)
Geological and geophysical	250	288	(13)	785	1,248	(37)
Other	1	297	(100)	20	632	(97)
Total exploration and development	492	18,144	(97)	10,755	39,916	(73)
Corporate acquisition	84,315	-	100	84,315	-	100
Property acquisitions	-	-	-	2,442	-	100
Property dispositions	(696)	-	100	(866)	(4,752)	(82)
Net property acquisitions (dispositions)	(696)	-	100	1,576	(4,752)	133
Total capital expenditures	84,111	18,144	364	96,646	35,164	175

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

On August 13, 2009, the Company closed a business combination (the "Acquisition") whereby it acquired all of the issued and outstanding shares of Salvo Energy Corporation ("Salvo"). 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	84,315
Working capital	508
Revolving credit facility	(29,750)
Bridge facility	(25,000)
Asset retirement obligation	(6,531)
Future income tax liability	52
	23,594
Consideration of acquisition	
Issuance of 19,898,760 common shares	23,083
Transaction costs	511
	23,594

Liquidity and Capital Resources

The Company had net debt of \$82.8 million at September 30, 2009 compared to net debt of \$20.9 million at December 31, 2008. The change of \$61.9 million was mainly due to \$54.2 million in net debt acquired on the acquisition of Salvo, transaction costs of \$0.5 million, \$10.8 million used for the purchase and development of oil and natural gas properties and equipment, and \$1.6 million in net property acquisitions, which were offset by funds from operations of \$5.4 million.

In conjunction with the Acquisition, the Company obtained an increase in its revolving operating demand loan credit facility to \$60.0 million bearing interest at prime plus a range of 0.25% to 3.25%. The security on the facility was increased to a supplemental \$125 million fixed and floating charge debenture on the assets of the Company. The security also contains a \$125 million first position guarantee of Crocotta from any subsidiary of Crocotta or Salvo holding certain assets acquired upon the Acquisition (the "Assets") and a second position guarantee of Crocotta from Salvo. The next review of the credit facility by the bank is scheduled on or before December 31, 2009. At September 30, 2009, \$58.4 million (December 31, 2008 – \$15.7 million) had been drawn on the credit facility. Subsequent to September 30, 2009, the credit facility was reduced to \$58.5 million in conjunction with the sale of certain oil and natural gas properties for approximately \$2.5 million.

The Company also obtained a \$25.0 million secured bridge facility in conjunction with the Acquisition. This bridge facility bears interest at 8% and is secured by a first position security charge on Salvo and a second position security charge on Crocotta or any subsidiary of Crocotta or Salvo holding the Assets. The maturity date on this bridge facility is December 31, 2009. At September 30, 2009, \$24.6 million had been drawn on the bridge facility.

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Management's Discussion & Analysis
Three and nine months ended September 30, 2009

The Company currently does not have the funds to repay the bridge facility. The Company has identified and initiated a sales process of certain oil and natural gas properties totalling approximately 1,300 boepd. Crocotta will use its best efforts to sell a minimum of 500 boepd prior to December 31, 2009 to raise sufficient funds to repay the bridge facility and allow for future cash flow to be used for capital programs in core areas. Other options to repay the bridge facility include raising equity, reducing capital spending, and renegotiating credit and bridge facilities. Although management of Crocotta believes it can repay the bridge facility before its maturity date, there is no assurance that this will happen.

Subsequent to September 30, 2009, the Company completed a private placement issuance of 1.2 million units (the "Units") at a price of \$1.05 per Unit to management of Crocotta. Each Unit consists of one common share of Crocotta and one common share purchase warrant that will allow the holder to purchase an additional common share at a price of \$1.40 per share for a period of three years from the date of issuance of the Unit.

The current global financial crisis has reduced the liquidity in financial and capital markets, restricted access to financing and has caused significant volatility in commodity prices. These conditions will present challenges to world economies, to industry participants and to Crocotta. Operating results and management's capital investment decisions will be impacted.

Contractual Obligations

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

(\$000s)	Total	Less than 1 year	1 – 3 years	After 3 years
Revolving credit facility	58,356	58,356	-	-
Secured bridge facility	24,643	24,643	-	-
Operating lease	1,812	792	941	79
Capital lease	257	257	-	-
Flow-through commitment	2,406	2,406	-	-
Total contractual obligations	87,474	86,454	941	79

Outstanding Share Data

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

(000s)	September 30, 2009	November 5, 2009
Voting common shares	63,884	65,084
Options	6,072	6,072
Warrants	2,404	3,604
Total	72,360	74,760

Critical Accounting Policies

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

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

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

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

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

New Accounting Standards

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

Goodwill

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

International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board has confirmed that the use of IFRS will be required in 2011 for publicly accountable, profit-oriented enterprises. IFRS will replace current Canadian GAAP. The Company will be required to begin reporting under IFRS effective January 1, 2011 and will be required to provide information following IFRS for the comparative period. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies which must be addressed.

The Company has completed the diagnostic assessment phase of IFRS by comparing the differences between Canadian GAAP and IFRS. This assessment has provided insight into what are anticipated to be the most significant differences applicable to the Company. The Company is currently performing an in-depth review of the significant differences, identified during the preliminary assessment, in order to identify all specific Canadian GAAP and IFRS differences and select ongoing IFRS policies. The Company's external auditors have been and will continue to be involved throughout the process to ensure the Company's policies are in accordance with IFRS. The Company has determined that accounting for property, plant and equipment, impairment testing, asset retirement obligations, business combinations, stock-based compensation, and income taxes will be impacted by the conversion to IFRS. The impact of IFRS on the Company's consolidated financial statements is not reasonably determinable at this time. The Company plans to maintain both Canadian GAAP and IFRS compliant financial statements in 2010.

In July 2009 an amendment to IFRS 1 First Time Adoption of International Reporting Standards was issued that applies to oil and gas assets. The amendment allows an entity that used full cost accounting under its previous GAAP to elect to measure oil and gas assets, including exploration and evaluation assets and development and production assets, at values determined under their previous GAAP with development and production assets being allocated pro rata costs using reserve volumes or reserve values as of the date of adoption, providing that all assets are tested for impairment on adoption. The Company expects that it will use this exemption.

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. From time to time the Company may attempt to mitigate commodity price risk through the use of financial derivatives.

Safety and Environmental Risks

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

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Company evaluated its disclosure controls and procedures for the year ended December 31, 2008. The Company's CEO and CFO have concluded that, based on their evaluation, the Company's disclosure controls and procedures are effective to provide reasonable assurance that all material or potentially material information related to the Company is made known to them and is disclosed in a timely manner if required.

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

The Company evaluated the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. The Company's CEO and CFO have concluded that, based on their evaluation, the Company's internal control over financial reporting was effective as of December 31, 2008. No material changes in the Company's internal controls over financial reporting were identified during the most recent reporting period that have materially affected, or are likely to material affect, the Company's internal controls over financial reporting.

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

Crocotta Energy Inc.
Consolidated Balance Sheets
(unaudited)

	As at September 30, 2009	As at December 31, 2008
(\$000s)		
Assets		
Current assets:		
Cash and cash equivalents	444	-
Accounts receivable	5,385	5,982
Prepaid expenses and deposits	1,381	1,452
	7,210	7,434
Oil and natural gas properties and equipment (note 4)	260,198	180,553
	267,408	187,987
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	6,708	12,296
Revolving credit facility (note 5)	58,356	15,650
Secured bridge facility (note 5)	24,643	-
Risk management contracts (note 10(b))	830	-
Current portion of capital lease (note 6)	257	432
	90,794	28,378
Asset retirement obligations (note 7)	10,913	4,158
Deferred gain	7,431	7,431
Future income tax liability	589	1,595
Shareholders' equity:		
Capital stock (note 8)	165,372	144,593
Contributed surplus (note 8(c))	1,896	1,002
Retained earnings (deficit)	(9,587)	830
	157,681	146,425
Subsequent events (notes 3, 5, 8(b))	267,408	187,987

See accompanying notes to the consolidated financial statements

Approved by the Board of Directors:

Director, "signed" Rob Zakresky

Director, "signed" Larry Moeller

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

Crocotta Energy Inc.

Consolidated Statements of Operations, Comprehensive Earnings (Loss), and Retained Earnings (Deficit)

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
(\$000s, except per share amounts)				
Revenue:				
Oil and natural gas sales	8,649	13,547	22,069	45,739
Royalties	(2,085)	(2,764)	(4,408)	(9,295)
Interest income	-	-	-	11
	6,564	10,783	17,661	36,455
Realized gain (loss) on risk management contracts (note 10(b))	6	-	6	-
Unrealized gain (loss) on risk management contracts (note 10(b))	(830)	-	(830)	-
	5,740	10,783	16,837	36,455
Expenses:				
Production	2,590	1,828	6,818	5,779
Transportation	275	185	794	653
General and administrative	1,007	890	3,363	2,467
Interest expense	946	156	1,339	412
Depletion, depreciation and accretion	5,811	5,839	17,471	18,931
Stock-based compensation	266	193	744	516
	10,895	9,091	30,529	28,758
Earnings (loss) before income taxes	(5,155)	1,692	(13,692)	7,697
Income Taxes:				
Future income tax expense (recovery)	(1,236)	460	(3,275)	2,211
Net earnings (loss) and comprehensive earnings (loss) for the period	(3,919)	1,232	(10,417)	5,486
Retained earnings (deficit), beginning of period	(5,668)	2,110	830	(2,144)
Retained earnings (deficit), end of period	(9,587)	3,342	(9,587)	3,342
Net earnings (loss) per share:				
Basic and diluted	(0.06)	0.04	(0.22)	0.17

See accompanying notes to the consolidated financial statements

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
(\$000s)				
Cash provided by (used in):				
Operating:				
Net earnings (loss)	(3,919)	1,232	(10,417)	5,486
Items not affecting cash:				
Depletion, depreciation and accretion	5,811	5,839	17,471	18,931
Stock-based compensation	266	193	744	516
Unrealized loss on risk management contracts (note 10(b))	830		830	-
Future income tax expense (recovery)	(1,236)	460	(3,275)	2,211
	1,752	7,724	5,353	27,144
Asset retirement expenditures	(45)	-	(45)	-
Net change in non-cash working capital	1,381	1,734	1,315	(312)
	3,088	9,458	6,623	26,832
Financing:				
Revolving credit facility	(2,488)	9,912	12,955	13,516
Secured bridge facility	(357)	-	(357)	-
Capital lease payments	(60)	(55)	(175)	(162)
Share issue costs	(34)	-	(34)	-
	(2,939)	9,857	12,389	13,354
Investing:				
Purchase and development of oil and natural gas properties and equipment	(492)	(18,144)	(13,197)	(39,916)
Disposition of oil and natural gas properties and equipment (note 3)	696	-	866	4,752
Business combinations (note 2)	(408)	-	(408)	-
Net change in non-cash investing working capital	499	(1,171)	(5,829)	(8,025)
	295	(19,315)	(18,568)	(43,189)
Change in cash and cash equivalents	444	-	444	(3,003)
Cash and cash equivalents, beginning of period	-	-	-	3,003
Cash and cash equivalents, end of period	444	-	444	-

See accompanying notes to the consolidated financial statements

Crocotta Energy Inc.
Notes to the Consolidated Financial Statements
Three and nine months ended September 30, 2009

(Tabular amounts in 000s, unless otherwise stated)

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

1. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

The interim consolidated financial statements of Crocotta have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its wholly owned subsidiaries. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the year ended December 31, 2008. The disclosures provided below are incremental to those included with the audited annual financial statements. The interim consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2008.

b) Derivative financial instruments

Derivative financial instruments that do not qualify as hedges, or are not designated as hedges, are recorded using the mark-to-market method of accounting whereby instruments are recorded in the balance sheet as either an asset or liability with changes in fair value recognized in net earnings. Derivative financial instruments are used by the Company to manage economic exposure to market risks relating to commodity prices. Crocotta's policy is not to utilize derivative financial instruments for speculative purposes.

c) New accounting standards

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

Goodwill

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

International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board has confirmed that the use of IFRS will be required in 2011 for publicly accountable, profit-oriented enterprises. IFRS will replace current Canadian GAAP. The Company will be required to begin reporting under IFRS effective January 1, 2011 and will be required to provide information following IFRS for the comparative period. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies which must be addressed.

The Company has completed the diagnostic assessment phase of IFRS by comparing the differences between Canadian GAAP and IFRS. This assessment has provided insight into what are anticipated to be the most significant differences applicable to the Company. The Company is currently performing an in-depth review of the significant differences, identified during the preliminary assessment, in order to identify all specific Canadian GAAP and IFRS differences and select ongoing IFRS policies. The Company's external auditors have been and will continue to be involved throughout the process to ensure the Company's policies are in accordance with IFRS. The Company has determined that accounting for property, plant and equipment, impairment testing, asset retirement obligations, business combinations, stock-based compensation, and income taxes will be impacted by the conversion to IFRS. The impact of IFRS on the Company's consolidated financial statements is not reasonably determinable at this time. The Company plans to maintain both Canadian GAAP and IFRS compliant financial statements in 2010.

In July 2009 an amendment to IFRS 1 First Time Adoption of International Reporting Standards was issued that applies to oil and gas assets. The amendment allows an entity that used full cost accounting under its previous GAAP to elect to measure oil and gas assets, including exploration and evaluation assets and development and production assets, at values determined under their previous GAAP with development and production assets being allocated pro rata costs using reserve volumes or reserve values as of the date of adoption, providing that all assets are tested for impairment on adoption. The Company expects that it will use this exemption.

Crocotta Energy Inc.
Notes to the Consolidated Financial Statements
Three and nine months ended September 30, 2009

(Tabular amounts in 000s, unless otherwise stated)

2. ACQUISITION

On August 13, 2009, the Company closed a business combination (the "Acquisition") whereby it acquired all of the issued and outstanding shares of Salvo Energy Corporation ("Salvo"). 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	84,315
Working capital	508
Revolving credit facility	(29,750)
Bridge facility	(25,000)
Asset retirement obligation	(6,531)
Future income tax liability	52
	23,594
Consideration of acquisition	
Issuance of 19,898,760 common shares	23,083
Transaction costs	511
	23,594

The results of operations include net revenue from this transaction effective August 13, 2009.

3. PROPERTY DISPOSITIONS

During the year, the Company sold certain oil and natural gas properties to four unrelated parties for cash proceeds of approximately \$0.9 million. The following table details the allocation of the proceeds on disposition:

Net assets disposed	Amount
Oil and natural gas properties	955
Asset retirement obligation	(89)
	866

Subsequent to September 30, 2009, the Company sold certain oil and natural gas properties to two unrelated parties for cash proceeds of approximately \$2.5 million.

4. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT

	September 30, 2009	December 31, 2008
Oil and natural gas properties	308,992	212,185
Equipment under capital lease	763	763
Office and other equipment	347	329
	310,102	213,277
Accumulated depletion and depreciation	(49,904)	(32,724)
Net Book Value	260,198	180,553

As at September 30, 2009, the cost of oil and natural gas properties includes approximately \$36.4 million (December 31, 2008 – \$38.0 million) relating to properties from which there is no production and no reserves assigned and which have been excluded from costs subject to depletion and depreciation. During the three and nine months ended September 30, 2009, the provision for depletion, depreciation and accretion includes \$0.1 million (2008 – \$0.1 million) and \$0.3 million (2008 - \$0.2 million), respectively, for accretion of asset retirement obligations and \$0.1 million (2008 – \$0.1 million) and \$0.1 million (2008 - \$0.1 million), respectively, for amortization of equipment under capital lease. During the three and nine months ended September 30, 2009, the Company capitalized \$0.2 million (2008 – \$0.1 million) and \$0.6 million (2008 - \$0.4 million), respectively, of general and administrative costs and \$0.1 million (2008 - \$0.1 million) and \$0.2 million (2008 - \$0.1 million), respectively, of stock-based compensation.

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

Year	WTI Oil (\$US/bbl)	Foreign Exchange Rate	Edmonton Light Crude Oil (\$Cdn/bbl)	AECO Gas (\$Cdn/mmbtu)
2009	60.28	0.873	65.87	4.52
2010	74.00	0.920	79.46	6.36
2011	77.00	0.930	81.83	6.77
2012	82.00	0.930	87.20	7.10
2013	88.00	0.940	92.66	7.23
2014	93.85	0.950	97.84	7.68
2015	95.73	0.950	99.82	8.47
2016	97.64	0.950	101.83	8.94
2017	99.59	0.950	103.89	9.13
2018	101.59	0.950	105.99	9.33
Escalate Thereafter	2.0% per year		2.0% per year	2.0% per year

5. CREDIT FACILITIES

In conjunction with the Acquisition (note 2), the Company obtained an increase in its revolving operating demand loan credit facility to \$60.0 million bearing interest at prime plus a range of 0.25% to 3.25%. The security on the facility was increased to a supplemental \$125 million fixed and floating charge debenture on the assets of the Company. The security also contains a \$125 million first position guarantee of Crocotta from any subsidiary of Crocotta or Salvo holding certain assets acquired upon the Acquisition (the "Assets") and a second position guarantee of Crocotta from Salvo. The next review of the credit facility by the bank is scheduled on or before December 31, 2009. At September 30, 2009, \$58.4 million (December 31, 2008 – \$15.7 million) had been drawn on the credit facility. Subsequent to September 30, 2009, the credit facility was reduced to \$58.5 million in conjunction with the sale of certain oil and natural gas properties for approximately \$2.5 million (note 3).

The Company also obtained a \$25.0 million secured bridge facility in conjunction with the Acquisition. This bridge facility bears interest at 8% and is secured by a first position security charge on Salvo and a second position security charge on Crocotta or any subsidiary of Crocotta or Salvo holding the Assets. The maturity date on this bridge facility is December 31, 2009. At September 30, 2009, \$24.6 million had been drawn on the bridge facility.

The Company currently does not have the funds to repay the bridge facility. The Company has identified and initiated a sales process of certain oil and natural gas properties totalling approximately 1,300 boepd. Crocotta will use its best efforts to sell a minimum of 500 boepd prior to December 31, 2009 to raise sufficient funds to repay the bridge facility and allow for future cash flow to be used for capital programs in core areas. Other options to repay the bridge facility include raising equity, reducing capital spending, and renegotiating credit and bridge facilities. Although management of Crocotta believes it can repay the bridge facility before its maturity date, there is no assurance that this will happen.

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 annual repayments:

	Future Minimum Lease Payments	Executory Costs and Imputed Interest	Annual Principal Repayments
2009 – current portion	262	(5)	257
Total	262	(5)	257

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7. 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 \$31.1 million which is estimated to be incurred between 2009 and 2034. A credit-adjusted risk-free rate of 7% was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	Nine Months Ended September 30, 2009	Year Ended December 31, 2008
Balance, beginning of period	4,158	3,050
Liabilities acquired upon business combination (note 2)	6,531	884
Liabilities incurred in period	42	269
Liabilities disposed through property dispositions (note 3)	(90)	(229)
Liabilities settled in period	(19)	(36)
Accretion expense	291	220
Balance, end of period	10,913	4,158

8. SHARE CAPITAL

a) Authorized

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

b) Issued and outstanding

	Number	Amount
Voting common shares		
Balance at December 31, 2008	43,985	144,593
Issued upon acquisition of Salvo (note 2)	19,899	23,083
Share issue costs, net of future tax effect	-	(26)
Future tax effect of flow-through share renunciation	-	(2,278)
Balance at September 30, 2009	63,884	165,372

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

Subsequent to September 30, 2009, the Company completed a private placement issuance of 1.2 million units (the "Units") at a price of \$1.05 per Unit to management of the Company. Each Unit consists of one common share of Crocotta and one common share purchase warrant that will allow the holder to purchase an additional common share at a price of \$1.40 per share for a period of three years from the date of issuance of the Unit.

c) Contributed surplus

	Nine Months Ended September 30, 2009	Year Ended December 31, 2008
Balance, beginning of period	1,002	203
Stock-based compensation	894	799
Balance, end of period	1,896	1,002

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d) Warrants

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

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

	Number of Warrants	Weighted Average Price (\$)	Exercisable at September 30, 2009	Expiry Date
Warrants				
- issued at \$3.75 per share	747	3.75	498	December 23, 2012
- issued at \$4.05 per share	21	4.05	14	December 23, 2012
- issued at \$4.50 per share	781	4.50	521	December 23, 2012
- issued at \$5.25 per share	54	5.25	36	December 23, 2012
- issued at \$6.00 per share	747	6.00	498	December 23, 2012
- issued at \$6.75 per share	54	6.75	36	December 23, 2012
	2,404	4.80	1,603	

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

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

e) Stock options

The Company has authorized and reserved for issuance 6.4 million common shares under a stock option plan enabling certain officers, directors, employees, and consultants to purchase common shares. The Company will not issue options exceeding 10% of the shares outstanding at the time of the option grants. Under the plan, the exercise price of each option equals the market price of the Company's shares on the date of the grant. The options vest over a period of 3 years and an option's maximum term is 5 years. As at September 30, 2009, 6.1 million options have been granted and are outstanding at prices ranging from \$1.10 to \$3.75 per share with expiry dates ranging from January 23, 2012 to September 17, 2014.

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

	Number of Options	Weighted Average Price (\$)
Balance at December 31, 2008	3,045	3.00
Options granted	3,027	1.16
Balance at September 30, 2009	6,072	2.08
Exercisable at September 30, 2009	1,288	3.03

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f) Stock-based compensation

The compensation cost charged to earnings during the three and nine months ended September 30, 2009 for the stock option plan was \$0.3 million (2008 - \$0.2 million) and \$0.7 million (2008 - \$0.5 million), respectively.

The Company granted 2.0 million options during the three months ended September 30, 2009. The fair value of each option granted during the three and nine months ended September 30, 2009 was determined using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Fair value per option	\$0.77	\$0.80
Risk-free rate	2.3%	2.0%
Expected life	4.0 years	4.0 years
Expected volatility	100.7%	99.3%
Dividend yield	-	-

g) Per share information

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

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Basic and diluted	54,584	47,557

9. CAPITAL DISCLOSURES

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

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

	September 30, 2009	December 31, 2008
Shareholders' equity	157,681	146,425
Net debt	82,754	20,944

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

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

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

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

a) Fair value of financial instruments

The Company's financial assets and financial liabilities are comprised of cash and cash equivalents, accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities, capital lease obligations (note 6), and amounts drawn on the revolving credit facility and secured bridge facility (note 5). 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.

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b) Market risk

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

Foreign exchange risk

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

Interest rate risk

The Company is exposed to interest rate risk as it borrows funds at floating interest rates (note 5). In addition, the Company is exposed to interest rate risk to the Canada Revenue Agency for interest on unexpended funds on the Company's flow-through share obligations. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations. A 100 basis point increase or decrease in interest rates would have impacted net earnings and other comprehensive income by approximately \$0.1 million for the three months ended September 30, 2009 and \$0.3 million for the nine months ended September 30, 2009.

Commodity price risk

The Company's oil, natural gas, and NGLs production is marketed and sold on the spot market to area aggregators based on daily spot prices that are adjusted for product quality and transportation costs. The Company's cash flow from product sales will therefore be impacted by fluctuations in commodity prices. From time to time the Company may attempt to mitigate commodity price risk through the use of financial derivatives.

At September 30, 2009, the Company had the following risk management contracts outstanding:

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

For the three and nine months ended September 30, 2009, the realized gain on the risk management contracts was virtually \$nil and the unrealized loss on the risk management contracts was \$0.8 million. The fair value of these risk management contracts at September 30, 2009 was a liability of \$0.8 million.

A \$1.00/boe increase or decrease in commodity prices would have impacted net earnings and other comprehensive income by approximately \$0.1 million for the three months ended September 30, 2009 and \$0.4 million for the nine months ended September 30, 2009.

c) Credit risk

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

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

The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. At September 30, 2009, there are no material financial assets that the Company considers impaired.

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d) Liquidity risk

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

The following are the contractual maturities of financial liabilities at September 30, 2009:

Financial Liability	Less than 1 Year	1 to less than 2 Years	Thereafter	Total
Accounts payable and accrued liabilities	6,708	-	-	6,708
Revolving credit facility	58,356	-	-	58,356
Secured bridge facility	24,643	-	-	24,643
Capital lease obligation	257	-	-	257
	<u>89,964</u>	<u>-</u>	<u>-</u>	<u>89,964</u>

CORPORATE INFORMATION

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Director

Don Cowie
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