Crocotta Energy Inc. Announces Strategic Transaction With Long Run Exploration and Creation of A New Pure-Play Montney Company

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CALGARY, ALBERTA -- (Marketwired - June 12, 2014) - Crocotta Energy Inc. (TSX:CTA) ("Crocotta" or the "Company") is pleased to announce that it has entered into an arrangement agreement (the "Agreement") whereby Long Run Exploration Ltd. ("Long Run" or "LRE") will acquire all of the issued and outstanding common shares of Crocotta in a transaction valued at approximately $357 million (the "Arrangement") including debt and transaction costs assumed by Long Run. Under the terms of the Arrangement each common share of Crocotta will be exchanged for 0.415 of a common share of Long Run, 1.0 common share of a new Montney-focused exploration and production company ("ExploreCo") and 0.2 of an ExploreCo common share purchase warrant ("ExploreCo Arrangement Warrants"). Each whole ExploreCo Arrangement Warrant will entitle the holder to acquire one common share of ExploreCo ("ExploreCo Share") at an exercise price of $1.70 per share at any time on or before 30 days following the closing of the Arrangement. It is also proposed that in conjunction with the Arrangement, certain officers, employees and directors will purchase up to 7.65 million units of ExploreCo ("ExploreCo Units") at $1.70 per ExploreCo Unit for total proceeds of up to $13 million (the "Management Financing"). Additional details are provided under the heading "Financings" below.

In addition, in conjunction with the Arrangement, Crocotta and ExploreCo have entered into a letter agreement with a syndicate of underwriters lead by National Bank Financial Inc. to raise $30 million through a private placement of subscription receipts of ExploreCo ("Subscription Receipts") at a price of $1.70 per Subscription Receipt on a "bought-deal" basis (the "Subscription Receipt Offering"). The gross proceeds raised under the Subscription Receipt Offering will be held in escrow pending satisfaction of certain escrow release conditions, including all of the conditions required to complete the Arrangement having being satisfied or waived. Additional details are provided under the heading "Financings" below.

STRATEGIC RATIONALE FOR TRANSACTION

Crocotta has two major assets that are very diverse and believes that separating these two assets will ultimately result in maximizing value for all shareholders of Crocotta. The Edson property is a low operating cost cash flow engine that produces approximately 7,500 BOE/d of light oil and liquids-rich natural gas and has extensive infrastructure and low-risk drilling inventory in the Bluesky and Cardium formations. The Dawson-Sunrise Montney asset is an exciting exploration asset that has significantly less production (2,300 BOE/d) and less established infrastructure, but provides Crocotta shareholders with what Crocotta believes to be a significant potential upside based on recent drilling in the area.

Crocotta believes that the benefits of separating the assets into two companies (Edson as part of a larger established dividend-paying company in Long Run and ExploreCo providing a pure-play Montney company with lands in the heart of the Montney's liquids-rich gas fairway) are numerous, including:

- allowing shareholders to participate in a larger entity (Long Run) that pays a strong sustainable dividend with a low payout ratio;

- reducing shareholders' risk and volatility on the Long Run portion given it is a balanced producer (approximately 50/50 Liquid to Gas ratio) with a diversified asset base; and

- exposing shareholders to a new pure play liquids-rich Montney producer (ExploreCo) that will be able to allocate capital and manpower exclusively to accelerate the growth of this asset.

EXPLORECO

ExploreCo is anticipated to be a new junior exploration and production company led by Robert Zakresky as

President and CEO and certain members of Crocotta's current management team. ExploreCo will be a growth-oriented, exploration-focused entity with approximately 2,300 BOE/d of liquids-rich natural gas. The assets will be focused in the highly prolific Montney gas resource trend of northeast British Columbia predominantly in the Dawson-Sunrise area where drilling results have been exceptional. Crocotta recently drilled a Montney well that has been on-stream for over 60 days with an IP30 of 920 BOE/d (32% oil and liquids) and and IP60 of 880 BOE/d (32% oil and liquids). Based on initial results, ExploreCo estimates the rate of return on this well to be over 200% with payback of approximately 7 months and a net present value of greater than $12 million based on certain capital estimates and forward strip pricing.

ExploreCo will hold a large land base in the Dawson-Sunrise area consisting of over 60 net sections (38,400 acres) of land with potential for Montney. Currently, ExploreCo anticipates having greater than 80 Montney locations and will continue with delineation drilling to possibly prove up an additional 200 locations on its current land base.

The Agreement contemplates that ExploreCo will assume approximately $15 million of existing Crocotta debt, however, based on the Management Financing, the Subscription Receipt Offering and exercise of ExploreCo Arrangement Warrants noted above, expects to be fully financed to carry out a significant drilling program and a material expansion of its current gas plant. ExploreCo has estimated that it will achieve a production rate of over 5,000 BOE/d (20-25% oil and liquids) by the end of 2015. ExploreCo estimates it will spend approximately $90 million in 2015 that includes drilling approximately 8 horizontal multi-frac Montney wells and the expansion of its current gas plant from 20 MMcf/d capacity to 60 MMcf/d capacity.

Assuming all private placements are fully subscribed for and all ExploreCo Arrangement Warrants are exercised, ExploreCo will have the following characteristics:

- 2,300 BOE/d (projected 5,000 BOE/d by exit 2015);

- $67 million cash (no debt);

- over 60 net sections (38,400 acres) of land in the highly prolific liquids-rich Montney fairway;

- a development drilling inventory of over 80 locations (IP60 approximately 880 BOE/d) with potential to prove up an additional 200 locations; and

- 155 million ExploreCo Shares outstanding.

SUMMARY

Crocotta's board of directors and management view the Arrangement as an advantageous transaction for Crocotta shareholders. Through the Long Run transaction, existing Crocotta shareholders will benefit from the diversification of the Long Run asset base and liquidity in its shares as well as access to a monthly dividend stream (current average dividend yield of Long Run is approximately 7.6% per annum). Additionally, Crocotta shareholders will retain ownership in ExploreCo following the completion of the Arrangement, which will own certain assets that Crocotta's management believe to contain significant upside and growth potential which can be accelerated through focused exploration and development in a well-capitalized entity.

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Consideration Received by Crocotta Shareholders:
1.0 ExploreCo Share (ExploreCo financing price)             $ 1.70/share
0.415 common share of Long Run                              $ 2.28/share(1)
Total Value (not including ExploreCo Arrangement Warrants)    $ 3.98/share
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- Based on June 11, 2014 trading price of Long Run of $5.50

DESCRIPTION OF THE TRANSACTION

Arrangement

The Arrangement is a culmination of over seven years of exploration and development over which the Company grew production from approximately 100 BOE/d to current production of approximately 9,800 BOE/d. Management views the Arrangement as an opportunity for Crocotta shareholders to realize value for a large portion of the Company's assets while retaining significant upside exposure associated with the Montney focused ExploreCo.

Based on the above expectations for the Arrangement and the consideration offered by Long Run (excluding

ExploreCo component) the Arrangement has the following operational characteristics:

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Long Run total consideration (1)         $         357 million
Current production                 7,500 BOE/d (30% oil & NGLs)
Proved reserves (2)                  19.9 MMBOE
Proved plus probable reserves (2)                 32.6 MMBOE
Estimated run-rate funds flow (3)(4)        $         82 million

The acquisition metrics are as follows:
Long Run total consideration / Current Production             $ 47,600/BOE/d
Long Run total consideration / Run rate funds flow (3)(4)       4.4x
Long Run total consideration / Proved reserves                $ 17.93/boe
Long Run total consideration / Proved plus probable reserves   $ 10.95/boe
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1. Total consideration based on Long Run's June 11, 2014 trading price of $5.50.

2. Independent evaluation prepared by GLJ Petroleum Consultants Ltd. ("GLJ") with an effective of December 31, 2013.

3. Estimated run rate funds flow is equal to Crocotta's current production annualized, excluding production related to ExploreCo, multiplied by the current operating netback of $30.00. Operating netback calculated by subtracting royalties, transportation and operating costs from revenues divided by total production.

4. Funds flow and operating netback are non-GAAP measures. See "Non-GAAP Measures".

The Arrangement also allows ExploreCo management to immediately apply its expertise at creating value in a growth-oriented, exploration-focused entity following completion of the Arrangement. ExploreCo will be well-capitalized at inception with a cash balance, no debt, and highly focused assets primarily located in northeast British Columbia. Prior to the proposed private placements and the exercise of the ExploreCo Arrangement Warrants, the net asset value ("NAV") of ExploreCo is estimated to be $1.37 per share as calculated below:

BT NPV 10% - Reserves Value(1) $ 101.2 million
Plus: Undeveloped Land, and Other(2) $ 58.4 million
Less: Assumed debt $ 15.0 million
Net Asset Value ("NAV")(3) $ 144.6 million
Fully diluted ExploreCo Shares(4) 105.6 million shares
Net Asset Value per Share(3) $ 1.37/share

1. Independent evaluation prepared by GLJ dated December 31, 2013 related to the Northeast British Columbia properties which represent all of the properties being transferred into ExploreCo as part of the Arrangement. The estimated net present value does not represent fair market value and the estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

2. Internal Crocotta estimate of the fair market value of undeveloped land, facilities, and other assets not included in the December 31, 2013 reserves report being transferred into ExploreCo as part of the Agreement.

3. Assuming all currently "in the money" dilutive securities are taken up prior to closing of the Arrangement.

FINANCINGS

ExploreCo has proposed, in addition to approximately 21.1 million ExploreCo Arrangement Warrants exercisable at $1.70 per share, raising additional capital via the Management Financing and the Subscription Receipt Offering as described below. If all ExploreCo Arrangement Warrants are exercised, the Management Financing is fully subscribed and upon closing of the Subscription Receipt Offering (including full exercise of the Underwriters Option (as defined below)), ExploreCo would have a positive cash position of approximately $67 million after accounting for $15 million of assumed debt under the Arrangement.

Description of Management Financing

The Management Financing is an offering of up to 7.65 million ExploreCo Units to certain officers, employees and directors. Each ExploreCo Unit is comprised of one ExploreCo Share and one ExploreCo Share purchase warrant (a "Warrant"). The ExploreCo Units will be priced at $1.70 per ExploreCo Unit (24% above per share NAV) with the Warrant exercise price being priced at $2.04 (49% above per share NAV). The Warrants will vest equally over 3 years and will have a 5 year term from the date of issuance.

Description of Subscription Receipt Offering

In connection with the Arrangement, ExploreCo has entered into a letter agreement with a syndicate of underwriters led by National Bank Financial Inc. and including Haywood Securities Inc., Macquarie Capital Markets Canada Ltd., GMP Securities L.P., Paradigm Capital Inc., Acumen Capital Finance Partners Limited, Dundee Securities Ltd., BMO Nesbitt Burns Inc., Scotia Capital Inc., Clarus Securities Inc., Jennings Capital Inc., Canaccord Genuity Corp., Cormark Securities Inc. and Desjardins Securities Inc. (collectively, the "Underwriters"), pursuant to which the Underwriters have agreed to purchase for resale to the public, on a bought deal private placement basis, 17.7 million Subscription Receipts at a price of $1.70 per Subscription Receipt for gross proceeds of approximately $30 million. The gross proceeds from the sale of Subscription Receipts will be held in escrow pending certain escrow release conditions being met, which includes all outstanding conditions to the completion of the Arrangement being met or waived and receipt of all necessary approvals for the Subscription Receipt Offering and the Arrangement having been obtained on or before October 31, 2014. Upon all escrow release conditions being met and the required notices being given to the escrow agent, the net proceeds from the Subscription Receipt Offering will be released to Exploreco and the holders of Subscription Receipts will receive, without any additional consideration, one ExploreCo Share for each Subscription Receipt held. If all of the escrow release conditions are not met on or before October 31, 2014, then the gross proceeds under the Subscription Receipt Offering will be returned to the subscribers, together with a pro rata portion of interest earned on the gross proceeds.

In addition, the Underwriters have been granted an option (an "Underwriters Option"), which may be exercised in whole or in part up until 48 hours prior the closing of the Subscription Receipt Offering, to purchase up to an additional 2.9 million Subscription Receipts at a price of $1.70 per Subscription Receipt. If the Underwriters Option is fully exercised, gross proceeds from the Subscription Receipt Offering will be approximately $35 million.

The Subscription Receipts will be distributed by way of private placement in all provinces of Canada and in the United States and certain other jurisdictions as the Company and the Underwriters may agree. Completion of the Arrangement and the Subscription Receipt Offering is subject to certain conditions including the receipt of approvals from shareholders of Crocotta and Long Run and all necessary regulatory approvals, including the approval of the Toronto Stock Exchange ("TSX"). Closing of the Subscription Receipt Offering is expected to occur in early-mid July 2014 and the Arrangement is expected to close in early to mid-August 2014. The offered Subscription Receipts will be subject to a 4 month hold period, which is expected to expire on the date that is 4 month and one day after the closing of the Subscription Receipt Offering.

This press release is not an offer of the securities for sale in the United States. The securities have not been registered under the U.S. Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an exemption from registration. This press release shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the securities in any state in which such offer, solicitation or sale would be unlawful.

COMPENSATION ARRANGEMENT

ExploreCo proposes to issue an aggregate of 7.5 million performance warrants to certain officers, directors and employees of ExploreCo as part of a compensation arrangement. The performance warrants will vest equally over 3 years and have a 5 year term. Each performance warrant will entitle the holder thereof to acquire one ExploreCo Share at an exercise price of $1.70 per ExploreCo Share. The total number of ExploreCo Shares issuable under the performance warrants would comprise 5% of the proforma shares outstanding of ExploreCo and would be part of the 10% maximum restriction on evergreen stock options imposed by the TSX.

BOARD OF DIRECTORS RECOMMENDATION AND FINANCIAL ADVISORS

The Board of Directors of Crocotta constituted a special committee (the "Special Committee") comprised of independent directors to consider the Arrangement and the transactions contemplated by the Arrangement. Based upon the recommendation of the Special Committee, the opinion of the financial advisors to the Special Committee and the opinion of the financial advisor to the Board of Directors of Crocotta, the Board of

Directors of Crocotta has determined that the Arrangement is in the best interests of Crocotta and the Crocotta shareholders; (ii) determined that the consideration to be received by the Crocotta shareholders under the Arrangement is fair, from a financial point of view, to Crocotta Shareholders; (iii) approved the Agreement and the transactions contemplated thereby; and (iv) resolved to recommend that the Crocotta shareholders vote in favour of the Arrangement, the Management Financing and the Subscription Receipt Offering.

The Agreement has the support of all of Crocotta's management and directors who collectively own approximately 13% of Crocotta's fully diluted shares. Directors, officers and entities owned or controlled by JOG Capital Corp. exercising control or direction over approximately 31% of Crocotta's fully diluted shares have entered into support agreements in favour of the Arrangement. It is expected that a management information circular and proxy statement detailing the Arrangement and the ExploreCo private placements, and containing a copy of the written fairness opinions will be mailed to Crocotta's shareholders in early-mid July 2014 with a shareholder meeting to be scheduled for early to mid-August 2014. The closing of the Arrangement is subject to the receipt by Long Run and Crocotta of all Court, TSX and other regulatory approvals, receipt of the requisite shareholder approvals of Crocotta regarding the Arrangement and the ExploreCo private placements, approval by Long Run shareholders of the Long run share issuance under the Arrangement, no material adverse change having occurred in Crocotta and a number of other conditions customary in a transaction of the nature of the Arrangement.

The Agreement provides that Crocotta will pay Long Run a non‐completion fee of $10.5 million under certain circumstances. The Agreement also provides for customary non-solicitation covenants in favour of Long Run, including that Crocotta has the right to respond to superior proposals and that Long Run has the right to match any such proposal.

National Bank Financial Inc. acted as financial advisor to the Board of Directors of Crocotta with respect to the Arrangement and has provided the Special Committee and the Board of Directors of Crocotta with its verbal opinion that, subject to its review of the final form of documentation effecting the Arrangement, the consideration to be received by Crocotta shareholders pursuant to the Arrangement is fair, from a financial point of view, to the Crocotta shareholders. National Bank Financial Inc. is expected to provide a written fairness opinion relating to the Arrangement to the Special Committee and the Board of Directors of Crocotta in addition to the verbal opinion which has already been provided to the independent committee.

Haywood Securities Inc. ("Haywood") acted as financial advisor to the Special Committee with respect to ExploreCo. Haywood has provided the Special Committee its verbal opinion that, subject to its review of the final form of documentation effecting the Arrangement, the consideration to be received by Crocotta shareholders under the Arrangement, specifically related to the ExploreCo Shares and the ExploreCo Arrangement Warrants to be issued to Crocotta shareholders, is fair, from a financial point of view, to Crocotta and the Crocotta shareholders. Haywood is expected to provide a written fairness opinion relating to the ExploreCo consideration to be received by Crocotta shareholders under the Arrangement.

GMP Securities L.P. acted as strategic advisor to Crocotta and Paradigm Capital Inc. acted as strategic advisor to the ExploreCo.

FORWARD LOOKING STATEMENTS:

This press release 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 terms of the Arrangement and the ExploreCo private placements, the anticipated closing date of the Arrangement and the Subscription Receipt Offering, anticipated mailing date of the management information circular and proxy materials in connection with the Arrangement, ExploreCo's anticipated future rate of return on and the net value of the latest Montney well to be owned by ExploreCo following the completion of the Arrangement and anticipated timing related thereto, number of Montney locations that ExploreCo is anticipated to have in the future, anticipated production rate of ExploreCo as at the end of 2015, anticipated capital expenditure by ExploreCo by end of 2015, increase in gas plant capacity to be held by ExploreCo, ExploreCo's drilling plans, future growth plans, reserves and values attributable thereto, ExploreCo's growth strategy, the nature of ExploreCo's assets and capital programs. The forward-looking statements and information are based on certain key expectations and assumptions made by the Company and ExploreCo, including expectations and assumptions relating to the Company and ExploreCo being able to receive all required regulatory approvals to consummate the Arrangement and the two private placements, level of exercise of the ExploreCo Arrangement Warrants to be issued under the Arrangement, anticipated participation of officers, employees and directors in the management private placement, Crocotta receiving the requisite shareholder approvals of Crocotta and Long Run, 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 and ExploreCo 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.

The well-flow tests disclosed in this press release are not necessarily indicative of long-term performance or ultimate recovery.

Meaning of BOE: When used in this press release, BOE means a barrel of oil equivalent on the basis of 1 BOE to 6 thousand cubic feet of natural gas. BOE per day means a barrel of oil equivalent per day. BOE's may be misleading, particularly if used in isolation. A BOE conversion ratio of 1 BOE for 6 thousand cubic feet of natural gas 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: The reader is also cautioned that this news release contains the terms funds flow, net debt and operating netback which are not a recognized measures under Canadian generally accepted accounting principles ("GAAP"). Management believes that these measures are useful supplemental measures. Management uses funds flow 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 flow is a non-GAAP measure and has been defined by the Company as net earnings plus non-cash items (depletion and depreciation, asset impairments, share based compensation, non-cash finance expenses, unrealized gains and losses on risk management contracts, and deferred income taxes) and excludes the change in non-cash working capital related to operating activities and expenditures on decommissioning obligations. Net debt is calculated as current liabilities less current assets, excluding the current portion of future tax assets and derivative assets and liabilities. Operating netback is calculated as revenue minus royalties, operating expenses and transportation expenses. Operating netback is specific to a point in time and therefore will be unique to the period stated. Readers are cautioned, however, that these measures should not be construed as an alternative to other terms determined in accordance with GAAP as a measure of performance. Crocotta's method of calculating these measures may differ from other companies, and accordingly, they may not be comparable to measures used by other companies.

This press release shall not constitute an offer to sell, nor the solicitation of an offer to buy, any securities in the United States, nor shall there be any sale of securities mentioned in this press release in any state in the United States in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state.

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