

KROES

ENERGY INC.

FIRST QUARTER REPORT
For the Three Months Ended March 31, 2008

Business of the Company

Kroes Energy Inc. (“Kroes”) is a junior oil and gas company headquartered in Calgary, Alberta, Canada and is listed on the TSX Venture Exchange. The Company continues to expand its exploration program for shallow gas in western Canada. As of the date of this report, Kroes has drilled or acquired 12 wells in central Alberta and has 11 wells capable of production, of which 3 are presently shut in. Early in the first quarter, it sold its 25% interest in a small oilfield in Trinidad and in 2007 it sold its interest in a Ukrainian oil field joint venture.

Sale of Trinidad Interest

On January 12, 2008 Kroes closed the sale of its 25% interest in the Icacos Block, Cedros Peninsula, Trinidad for US\$250,000. In addition, Kroes retained a 1% overriding royalty on any production from the Block that may be developed below 4,000 feet, subject to a cap of US\$1 million. For 2007 Kroes share of existing shallow production from the block averaged 5 barrels of oil per day and operating cash flow amounted to approximately \$15,000. The sale proceeds will be dedicated to Kroes’ shallow gas program in western Canada.

Financial and Operating

The Company’s financial statements are presented on a discontinued operations basis whereby financial information for Trinidad and Ukrainian operations are separated from the continuing operations.

For the three months ended March 31, 2008 Kroes Energy’s continuing operations recorded a net loss of \$86,627 compared to a loss of \$125,537 for the same period in 2007. Cash flow for the quarter amounted to \$153,165 compared to a negative \$16,754 in the first quarter of 2007. The improvement in financial results on a comparative basis reflects the rapid growth of production and revenue from the shallow gas program in central Alberta. Production volumes for the quarter totalled 96 barrels of oil equivalent per day (boe/d) compared with 37 boe/d in the first quarter of 2007.

At March 31, 2008 the Company had cash on hand of \$1,254,758; had working capital of \$1,421,358; and had no debt.

Cash flow as commonly used in the oil and gas industry represents net earnings before depletion and depreciation, asset retirement expenses and other non-cash expenses.

The following table summarizes the Company's financial results for the 1st quarter 2008 and 2007.

	Three Months Ended	
	March 31, 2008	March 31, 2007
Cash Flow from continuing operations	\$153,165	(\$16,754)
Per Share – Basic and diluted	\$0.004	(\$0.000)
Net earning (loss) from continuing operations	(\$86,627)	(\$125,537)
Per Share – Basic and diluted	(\$0.002)	(\$0.004)
Net earnings (loss)	(\$63,819)	\$96,571
Per Share – Basic and diluted	(\$0.002)	\$0.003
Weighted Average Shares Outstanding		
- Basic + fully diluted	36,233,488	36,233,488

Western Canada Operations

The shallow gas program in central Alberta continued during the first quarter with production averaging 574 thousand cubic feet per day (mcf/d) or 96 barrels of oil equivalent per day (boe/d), compared with 222 mcf/d or 37 boe/d in the first quarter of 2007. The Company has interests in 8 wells that are presently on production. Three wells in which Kroes holds a 12.5% interest will be drilled late in the second quarter and two wells are expected to be drilled in the fourth quarter. In addition, the three wells that are presently shut in are expected to be connected in the fourth quarter after compression and tie-ins are installed. Should all of this activity be successfully completed, the Company will double the number of wells on production.

The Company also has production from 4 wells in the Flat Rock area of northern British Columbia that averaged 1 barrel per day net to Kroes in the first quarter. These minor interests were acquired as part the proceeds from the 2007 sale of Kroes' 45% interest in a Ukrainian joint venture and, while production is small, the current oil price should result in the generation of almost \$50,000 in revenue in 2008.

Vecta Energy Inc.

On January 28, 2008 Kroes and Vecta Energy Inc. (“Vecta”) entered into a letter agreement whereby the two companies would merge as equals. On April 28, 2008 a definitive formal agreement was signed that outlines all of the terms related to the business combination. The business combination will be achieved by a take-over bid being made by Kroes for all of the issued and outstanding shares of Vecta and for an outstanding debenture in the principal amount of \$850,000. A take-over bid circular (the “Offer”) was mailed to the shareholders and debenture holder of Vecta on May 28, 2008. The Offer must remain open for an acceptance period of 35 days from mailing, therefore it is expected that, subject to satisfaction of the

conditions contained in the Offer closing of the business combination will occur early in July, 2008.

In negotiating the merger, the Directors of each company acknowledged equal value for the two companies and the board of Vecta has recommended acceptance of the offer by its shareholders. Kroes' growing cash flow from its low risk shallow gas exploration program combined with the higher risk but higher reward foothills exploration potential of Vecta will result in a strengthened corporation with the opportunity for more rapid growth. Also, the ongoing corporation will be supported by Vecta's close relationship with its US associates that have considerable expertise in sophisticated 3-D seismic technology and in fact, have licensed that technology to Vecta for use in Canada.

Vecta recently participated with a 13.125% interest in a well drilled in the Brewster area of west central Alberta at 15-11-43-13W5. The well is a direct offset to a competitor's well that is presently producing more than 3 mmcf/day (500 boe/d). Logs from the 15-11 well indicate two zones of interest, one with 3 meters of pay and one with 7 meters of pay. The well will be tested and completed as soon as spring road bans are lifted. Vecta holds the same interest in three offsetting sections of land where the operator has identified three potential drilling locations. Also in the Brewster area, Vecta has a 47.5% interest in a suspended well that was drilled in 2006 at 12-15-42-13W5. With higher gas prices and the extension of industry gathering infrastructure, it is expected that the well will be tested and completed later in 2008. Another suspended well at 7-16-43-13W5 (Vecta 25% interest) appears to have potential in an upper Belly River zone and, with improved prices, is also a candidate for completion in 2008.

Vecta has 2,748 net acres of prospective land in the Brewster area where industry exploration in 2008 is expected to be very active. It also has 1,104 net acres at Gilby where extensive seismic coverage indicates considerable promise.

Other

On March 28, 2007, the Company entered into an agreement with Shelton Canada Corp. ("Shelton") whereby Shelton acquired 100% of the issued and outstanding shares of Kroes' wholly owned subsidiary Zhoda 2001 Corporation ("Zhoda"). Zhoda's only operating asset is a 45% interest in Kashtan Petroleum Ltd. a joint venture oilfield exploitation and development project in Ukraine. This transaction closed on August 1, 2007. In consideration for this acquisition, Shelton paid to the Company a total of \$3,529,252 as follows: (a) \$1,000,000 paid by cash; (b) \$2,099,252 by issuance of 6,997,507 common shares of Shelton valued at \$0.30 per share; and (c) \$430,000 by way of transfer of Shelton's only remaining western Canadian oil and gas interests. The Shelton shares were distributed to Kroes shareholders of record on August 17, 2007.

Management's Discussion and Analysis

Following is management's discussion and analysis (MD&A) of the results of operations for Kroes Energy Inc. ("Kroes") for the 1st quarter ended March 31, 2008 and its financial position as at March 31, 2008. The MD&A should be read in conjunction with the Consolidated Financial Statements and the related consolidated notes thereto. For additional information and details, readers are referred to the financial statements and MD&A for 2007 and the Company's Annual Information Form (AIF), all of which are published separately and are available at www.sedar.com.

This MD&A is intended to provide readers with the information that management believes is required to gain an understanding of Kroes current results and to assess the Company's future prospects. Accordingly, certain sections of this report contain forward-looking statements that are based on current plans and expectations. These forward-looking statements are affected by risks and uncertainties that are discussed in this document, as well as in the AIF, and that could have a material impact on future prospects. Readers are cautioned that actual events and results will vary.

Non-GAAP Financial Measures

Included in the MD&A and elsewhere in this report are references to terms used in the oil and gas industry such as cash flow from operations and cash flow per share. These terms are not defined by GAAP in Canada and consequently are referred to as Non-GAAP measures which do not have any standardized meaning and therefore reported amounts may not be comparable to similarly titled measures reported by other companies.

Use of BOE Equivalents

The oil and natural gas industry commonly expresses production volumes and reserves on a barrel of oil equivalent ("boe") basis whereby natural gas volumes are converted at the ratio of six thousand cubic feet to one barrel of oil. The intention is to calculate oil and natural gas measurements units on a consistent basis for improved measurement of results and comparisons with other industry participants. We use the 6:1 boe measure which is the approximate energy equivalency of the two commodities at the burner tip. However, boe does not represent a value equivalency at the plant gate where we sell our production volumes and therefore may be a misleading measure if used in isolation.

Revenue

Revenue from continuing oil and gas operations increased by 170% to \$393,514 in the first quarter 2008 as a result of a 160% increase in production from the western Canada shallow gas program and a modest increase in the average gas price.

Kroes average natural gas price in the first quarter of 2008 was \$8.01 per mcf, up from the \$7.80 received in the first quarter of 2007. The table below sets out the relevant variables for Kroes' oil and gas production.

	Three Months Ended	
	March 31, 2008	March 31, 2007
	<u>Liquids</u>	<u>Liquids</u>
Revenue		
Oil	\$2,537	\$-
Natural gas	390,977	144,366
	<u>\$393,514</u>	<u>\$144,366</u>
Daily Production Volumes		
Crude oil and liquids (Bbls per day)	-	-
Natural gas (Mcf per day)	574	222
	<u>574</u>	<u>222</u>
Boe equivalent (6 mcf to 1 barrel)	<u>96</u>	<u>37</u>
Prices		
Crude oil and liquids (per barrel)	\$90.60	\$-
Natural gas (per mcf)	\$8.01	\$7.80

Royalties

Royalty payments from continuing operations in the first quarter of 2008 were \$81,954 as compared to \$36,421 in the same period of 2007. The increase in royalties paid in 2008 results from increased natural gas production in western Canada. The royalty rate in western Canada during the 1st quarter 2008 was 20.9% as compared to 25.2% in the same period in 2007.

Operating Expenses

Operating costs from continuing operations were significantly higher in the first quarter 2008 due to higher production compared to the period a year ago. In the first quarter 2008, total production costs were \$85,410 as compared with \$36,223 in the same period last year. Unit operating costs were \$1.63 per mcf in 2008 as compared with \$1.81 per mcf in 2007.

General and Administrative Expenses

General and administrative expenses from continuing operations amounted to \$84,954 in the first quarter 2008 down from \$91,002 for the same period in 2007. The table below outlines the changes:

	Three Months Ended	
	March 31, 2008	March 31, 2007
Management, administration & consulting fees	\$33,924	\$30,375
Legal, accounting & auditing	11,889	\$24,822
Trustee, TSX listing and shareholder communications	10,693	\$7,013
Office rent	13,589	\$14,648
Office expenses and other	<u>14,859</u>	<u>\$14,144</u>
	<u>\$84,954</u>	<u>\$91,002</u>

Stock Based Compensation

In the first quarter of 2008, stock based compensation charges were \$25,648 compared to \$24,692 in the first quarter 2007. Under policies mandated by the regulatory authorities, the Company records compensation expense for stock options granted to directors, officers and employees using the fair value method. Fair values are determined using the Black-Scholes option pricing model. Compensation costs are recognized over the vesting period of the stock options.

Depletion and Depreciation

In the first quarter of 2008, depletion and depreciation from continuing operations increased to \$214,144 from \$84,091 in 2007, due to the active exploration and development program in western Canada in 2007. The unit depletion and depreciation costs in western Canada were \$4.09 per mcf in the 1st quarter of 2008 as compared with \$4.20 per mcf in the first quarter of 2007.

Netbacks

The average field operating netback to the Company for continuing operations in the first quarter of 2008 was \$4.62 per mcf versus \$3.87 in 2007. After administrative and corporate items, the netback made a considerable improvement due to higher production volumes and lower administrative costs.

	Three Months Ended March 31	
	2008	2007
	\$/Mcf*	\$/Mcf*
Oil and natural gas sales	\$8.03	\$7.80
Royalties	(1.67)	(1.97)
Operating expenses	(1.74)	(1.96)
Field operating netback	4.62	3.87
General and administrative	(1.73)	(4.92)
Other	.23	.14
Corporate netback	\$3.12	(\$.91)

Capital Additions

In the first quarter of 2008 capital additions from continuing operations amounted to \$158,010 compared to \$322,102 in 2007. Drilling activity in 2008 is scheduled for the second and fourth quarters whereas in 2007 the first quarter was very active.

	Three Months Ended March 31	
	2008	2007
P&NG Properties		
Land Acquisitions	\$66,040	\$103,795
Geological & Seismic	73,754	-
Exploration Drilling	10,622	200,133
Product & Gathering Equipment	3,888	18,174
	<u>\$154,304</u>	<u>\$322,102</u>
Office Furniture & Equipment	3,706	-
Total Capital Additions	<u>\$158,010</u>	<u>\$322,102</u>

Financial, liquidity and solvency

At March 31, 2008 the Company had positive working capital of \$1,421,358 compared with \$1,182,000 at December 31, 2007.

Share Capital and Stock Options

Securities at the end of the reporting period (see note 5 to the financial statements)

a) Authorized: An unlimited number of common and preferred shares without par value

Issued: 36,233,488 common shares

b) Stock Options Outstanding

Stock Options:	200,000	expiring January 8, 2009; exercisable at \$0.33
	900,000	expiring June 1, 2010; exercisable at \$0.56
	100,000	expiring March 21, 2011; exercisable at \$0.345
	100,000	expiring March 1, 2012; exercisable at \$0.155
	<u>1,660,000</u>	expiring August 21, 2012; exercisable at \$0.085
	<u><u>2,960,000</u></u>	

Quarterly Information

The following table sets forth certain quarterly financial information of the Company on a continuing operations basis for the eight most recent quarters.

	2008	2007				2006		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial								
Oil and gas gross revenue (\$000's)	\$394	\$341	\$114	\$126	\$144	\$7	\$2	\$-
Royalties (\$000's)	\$82	\$67	\$25	\$32	\$36	\$1	\$-	\$-
Cash flow from continuing operations (\$000's)	\$153	(\$238)	(\$44)	\$132	(\$17)	(\$215)	(\$149)	(\$220)
Per basic share and diluted	\$0.004	(\$0.007)	(\$0.001)	\$0.004	(\$0.000)	(\$0.006)	(\$0.004)	(\$0.007)
Net (Loss) Income from continuing operation (\$000's)	(\$87)	(\$335)	(\$281)	\$30	(\$126)	(\$281)	(\$203)	(\$258)
Per basic share and diluted	(\$0.002)	(\$0.010)	(\$0.008)	\$0.001	(\$0.004)	(\$0.008)	(\$0.005)	(\$0.008)
Weighted shares outstanding (millions)								
Basic	36.2	36.2	36.2	36.2	36.2	36.1	35.7	32.4
Fully diluted	39.2	36.2	36.2	36.2	40.0	36.1	36.0	33.1
Operating								
Liquids production (Bbl/d)	-	2	1	-	-	-	-	-
Natural gas production (Mcf/d)	574	613	227	204	222	10	4	-
Natural gas price \$/Mcf	\$8.01	\$6.16	\$5.33	\$7.30	\$7.80	\$7.14	\$5.60	-

Additional Disclosures

Internal Controls over Financial Reporting

For the quarter ended March 31, 2008, Kroes' Chief Executive Officer and acting Chief Financial Officer have reviewed Kroes internal controls over financial reporting ("ICFR") to a standard which provides reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the generally accepted accounting principles utilized by Kroes. The officers have evaluated the design of our ICFR as of the end of the period covered by the annual filings, and have concluded the design to be sufficient to provide such reasonable assurance. Although management has reached this conclusion, we have identified certain weaknesses in ICFR. These weaknesses essentially arise because of the small size of the Company and its accounting staff. The small size of the Company gives rise to an inability to achieve a standard of segregation of accounting and related duties which would be ideal under established ICFR standards, and to a high risk of management's ability to override controls and procedures. We have attempted to mitigate these risks arising from these weaknesses, through a combination of extensive and detailed review by the CEO of the financial reports, review and approval of all financial information by the Audit

Committee and the Board of Directors jointly, the integrity and reputation of senior financial and accounting personnel and the candid discussion of these risks with our external advisors.

Accounting Estimates and Critical Accounting Policies

Accounting estimates require Management to make assumptions regarding matters that are uncertain at the time the estimate is made and may have a material impact on the financial condition of the Company. A discussion of Kroes' significant accounting policies and estimates may be found in Note 2 to the consolidated financial statements.

Recent Accounting Pronouncements

The Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have an impact on the Company:

- As of January 1, 2008, the Company will be required to adopt the CICA Handbook Section 3031, "Inventories", which will replace the existing inventories standard. The new standard requires inventories to be valued on a first-in, first-out or weighted average basis, which is consistent with the Company's current treatment. The adoption of this standard should not have a material impact on the Company's financial statements.
- As of January 1, 2008, the Company will be required to adopt two new CICA Standards, Section 3862, "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which will replace Section 3861, Financial Instruments – Disclosure and Presentation". The new disclosure standard will increase the Company's disclosure regarding the risks associated with financial instruments and how those risks are managed.
- As of January 1, 2008, the Company will be required to adopt CICA, Section 1535, "Capital Disclosures" which will require the Company to disclose its objectives, policies and processes for managing capital.
- "As of January 1, 2008, the Company will be required to adopt CICA, amended Section 1400, "General Standards of Financial statement Presentation" which requires assessing and disclosing the Company's ability to continue as a going concern.
- "On January 10, 2006, the CICA Accounting Standards Board ("AcSB") ratified a new strategic plan that would see the convergence of Canadian Generally Accepted Accounting Principles ("GAAP") with International Financial reporting Standards ("IFRS") within 5 years. In March 2007, the AcSB released an "Implementation Plan for Incorporating IFRS into Canadian GAAP", which assumed a convergence date of January 1, 2011. The AcSB confirmed this date in February 2008. The Company continues to monitor and assess the consequences of the convergence on the financial statements as they could have a material impact.

Changes in accounting policy

On January 1, 2007, the Company adopted the CICA Handbook Section 1530, “Comprehensive Income”, Section 3251, “Equity”, Section 3861, “Financial Instruments – Disclosure and Presentation”, Section 3855, “Financial Instruments – Recognition and Measurement”, and Section 3865, “Hedges”. As required by the new standard, prior periods have not been restated, except to reclassify the foreign currency translation adjustment balances as Accumulated Other Comprehensive Income (“AOCI”).

The adoption of these standards has had no material impact on the Company’s net earnings or cash flows. The other effects of the implementation of the new standards are discussed below:

Comprehensive Income

The new standards introduce comprehensive income, which consists of net earnings and OCI. The Company’s financial statements now include a Statement of Comprehensive Loss, which includes the components of other comprehensive income (loss). OCI is currently comprised of the changes in the foreign currency translation adjustment balance.

The cumulative changes in OCI are included in AOCI, which is presented as a new category within shareholder’s equity in the Balance Sheet. The accumulated foreign currency translation adjustment, formerly presented as a separate category within shareholders equity, is now included in AOCI. The Company’s Financial Statements now include a Statement of Accumulated Other Comprehensive Income, which provides the continuity of the AOCI balance.

Directors and officers as at the date of this report:

Fred Callaway	President and Director
Edward M. Southern	Director & Executive Vice-President
C. James Cummings	Director
David E. Powell	Director
Dr. James E. Werbicki	Director
Darrell M. Zakreski	Director
Stewart D. Gossen	Director, Vice President, & Secretary
David R. Malarchuk	Controller

On behalf of the Board,

“Fred Callaway”

Fred Callaway, President
May 29, 2008

Kroes Energy Inc.
Consolidated Balance Sheets
(unaudited)

	March 31, 2008	December 31, 2007
ASSETS		
Current		
Cash and cash equivalents	\$1,254,758	\$1,152,259
Receivables and other	254,416	119,844
Prepays and deposits	4,524	9,553
Assets of discontinued operations	17,426	72,730
	<u>1,531,124</u>	<u>1,354,386</u>
Capital assets		
Properties and equipment (Note 3)	1,851,883	1,907,645
Assets of discontinued operations (Note 9)	-	243,931
	<u>\$3,383,007</u>	<u>\$3,505,962</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Payables and accruals	\$103,639	\$149,703
Liabilities of discontinued operations (Note 9)	6,127	22,683
	<u>109,766</u>	<u>172,386</u>
Asset retirement obligations (Note 4)	33,110	32,736
Liabilities of discontinued operations (Note 9)	-	22,538
	<u>142,876</u>	<u>227,660</u>
Shareholders' equity		
Capital stock (Note 5)	6,660,868	6,660,868
Contributed surplus	959,736	934,088
(Deficit) retained earnings	(4,380,473)	(4,316,654)
	<u>3,240,131</u>	<u>3,278,302</u>
	<u>\$3,383,007</u>	<u>\$3,505,962</u>

Kroes Energy Inc.
Consolidated Statements of Operations and Retained Earnings
(unaudited)

	Three months ended	
	March 31, 2008	March 31, 2007
Revenue		
Oil and natural gas sales	\$393,514	\$144,366
Royalties	(81,954)	(36,421)
	<u>311,560</u>	<u>107,945</u>
Expenses		
Operating	68,351	31,240
Transportation	17,059	4,983
General and administrative	84,954	91,002
Stock based compensation	25,648	24,692
Depletion and depreciation	214,144	84,091
	<u>410,156</u>	<u>236,008</u>
Loss before other items and income taxes	(98,596)	(128,063)
Other items		
Interest and other income	11,969	2,526
Net loss before income taxes	(86,627)	(125,537)
Income taxes	-	-
Net loss from continuing operations	<u>(\$86,627)</u>	<u>(\$125,537)</u>
Net (loss) earnings from discontinued operations	22,808	222,108
Net (loss) earnings	<u>(\$63,819)</u>	<u>\$96,571</u>
Net (loss) per share amounts from continuing operations		
Basic and diluted (Note 7)	<u>(\$0.002)</u>	<u>(\$0.003)</u>
Net (loss) per share amounts		
Basic and diluted (Note 7)	<u>(\$0.002)</u>	<u>\$0.003</u>
(Deficit) retained earnings - Beginning of period	(\$4,316,654)	\$1,734,908
Net (loss) earnings	(\$63,819)	\$96,571
(Deficit) retained earnings - End of period	<u>(\$4,380,473)</u>	<u>\$1,831,479</u>
Weighted average number of fully diluted shares outstanding	<u>36,233,488</u>	<u>36,233,488</u>

Kroes Energy Inc.
Consolidated Statements of Comprehensive Loss and
Accumulated Other Comprehensive Loss
(unaudited)

	Three Months Ended March 31	
	2008	2007
Net (loss) earnings	(\$63,819)	\$96,571
Other comprehensive loss		
Foreign currency translation adjustment	-	(60,277)
Comprehensive loss	<u>(\$63,819)</u>	<u>\$36,294</u>
Accumulated other comprehensive (loss)		
Beginning of year	-	(\$763,370)
Other comprehensive loss		
Foreign currency translation adjustment	-	(60,277)
Accumulated other comprehensive loss		
End of Period	<u>-</u>	<u>(\$823,647)</u>

Kroes Energy Inc.
Consolidated Statements of Cash Flow
(unaudited)

	Three months ended	
	March 31, 2008	March 31, 2007
Operating Activities		
Net loss	(\$86,627)	(\$125,537)
Items not affecting cash		
Depletion and depreciation	214,144	84,091
Stock option compensation	25,648	24,692
Unrealized foreign exchange gain		-
Cash flow from operations	<u>153,165</u>	<u>(16,754)</u>
Change in non-cash working capital	<u>(175,605)</u>	<u>(187,120)</u>
	<u>(22,440)</u>	<u>(203,874)</u>
		-
Investing		
Additions to property plant and equipment	(158,010)	(322,102)
Net change in cash and cash equivalents	<u>(180,450)</u>	<u>(525,976)</u>
Net cash flows of discontinued operations	282,949	1,142,781
Cash and cash equivalents,		
Beginning of period	<u>1,152,259</u>	<u>349,699</u>
End of period	<u>\$1,254,758</u>	<u>\$966,504</u>

Kroes Energy Inc.
Notes to the Consolidated Financial Statements
Period Ended March 31, 2008

Selected Notes to Consolidated Financial Statements

1. Nature of operations and going concern

The Company's continuing operations relate to the exploration for and production of petroleum and natural gas reserves in Canada.

Through its wholly owned subsidiary Zhoda 2001 Corporation ("Zhoda"), the Company held a 45% interest in the joint venture company Kashtan Petroleum Ltd. ("Kashtan"), a limited liability company, registered under the laws of Ukraine. On August 1, 2007, the Company sold its 100% interest in Zhoda to Shelton Canada Corporation (see Note 9).

On January 12, 2008, the Company disposed of its 25% interest in the Icacos Block, Cedros Peninsula, Trinidad ("Trinidad") for US\$250,000 (see Note 9).

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles applicable to a going concern which assumes that the Company will realize the carrying value of its assets and satisfy its obligations as they become due in the normal course of operations. For the 1st quarter ended March 31, 2008, the Company has a net loss from continuing operations of \$86,627 (\$125,537 for the period ended March 31, 2007) and cash flow from operating activities of \$153,165 (\$16,754 loss for the period ended March 31, 2007).

The ability of the Company to continue as a going concern depends on raising additional financing and achieving profitable operations sufficient to meet all obligations. Although, in the opinion of Management, the use of the going concern assumption is appropriate, there can be no assurance that any steps Management is taking will be successful.

These consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the balance sheet classifications that would be used if the going concern assumption were not appropriate. Such adjustments could be material.

2. Summary of significant accounting policies

Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles within the framework of the accounting policies summarized below.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Zhoda up to the date of disposition. All inter-company transactions and balances are eliminated upon consolidation. For the purpose of these financial statements all operations and accounts of Zhoda and Trinidad, are classified as discontinued operations.

Measurement uncertainty

The preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make certain assumptions and estimates that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from and affect the results reported in these consolidated financial statements as future confirming events occur.

Amounts recorded for depletion and depreciation, asset retirement obligations and amounts used in impairment test calculations are based upon estimates of petroleum and natural gas reserves and future costs to develop those reserves. By their nature, these estimates of reserves, costs and related future cash flows are subject to uncertainty, and the impact on the consolidated financial statements of future periods could be material.

The amounts attributable to the fair value of stock options issued are based on estimates of the future volatility of the Company's share price, expected lives of the options, expected dividends and other relevant assumptions (see Note 8).

Per share amounts

The treasury stock method is used to determine the dilutive effect of stock options and warrants. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock instruments are used to repurchase common shares at the average market price for the year.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand, balances with banks and short-term deposits with a duration of three months or less from the date of acquisition. Bank borrowings are considered to be financing activities.

3. Property Plant and Equipment

March 31, 2008			
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Exploration and developments costs	\$2,172,874	\$556,317	\$1,616,557
Production equipment and processing facilities	285,795	93,041	192,754
Office equipment	41,324	22,392	18,932
Retirement costs of long lived assets	31,210	7,570	23,640
	<u>\$2,531,203</u>	<u>\$679,320</u>	<u>\$1,851,883</u>

December 31, 2007			
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Exploration and developments costs	\$2,022,459	\$377,944	\$1,644,515
Production equipment and processing facilities	281,907	62,323	219,584
Office equipment	37,618	21,542	16,076
Retirement costs of long lived assets	31,210	3,740	27,470
	<u>\$2,373,194</u>	<u>\$465,549</u>	<u>\$1,907,645</u>

4. Asset Retirement Obligations

The following table represents the reconciliation of the beginning and ending aggregate carrying amount of the obligations associated with the retirement of oil and gas assets:

	Period Ended	
	March 31, 2008	December 31, 2007
Asset retirement obligations, beginning of period	\$32,736	\$2,862
Liabilities incurred	-	27,423
Revision of estimates		1,526
Accretion expenses	374	925
Asset retirement obligations, end of period	<u>\$33,110</u>	<u>\$32,736</u>

5. Share Capital

	March 31, 2008		December 31, 2007	
	Number of Shares	Amount	Number of Shares	Amount
Common shares				
Balance, beginning of year	36,233,488	\$6,660,868	36,233,488	\$6,814,320
Renunciation of flow through shares	-	-	-	(\$156,406)
Share issue costs			-	2,954
Balance, end of year	<u>36,233,488</u>	<u>\$6,660,868</u>	<u>36,233,488</u>	<u>\$6,660,868</u>

In 2006, the Company completed a public offering equity financing whereby the Company issued 1,787,500 units which consisted of one common share, one flow-through share and one half of one non-transferable common share purchase warrant exercisable at a price of \$0.45 per warrant. As commission, the Company issued non-transferable options to the agent to purchase 41,667 Agents units a price of \$0.60 per unit. Each unit consists of two common shares and one half of one common share purchase warrant exercisable at a price of \$0.45 per warrant. The agent also received as commission non-transferable options equalling 10% of the units sold (1,787,500 units) which consisted of two common shares and one half of one common share purchase warrant at an exercise price of \$0.45 per warrant. These units were exercisable at \$0.60 for 18 months from the initial closing date and expired unexercised on December 27, 2007.

6. Weighted Average Number of Common Shares

The following table summarizes the common shares used in the calculating net income and cash flow from operations per common share.

	Three Months Ended March 31	
	2008	2007
Basic	36,233,488	36,233,488
Fully Diluted	36,233,488	36,233,488

The reconciling items between the basic and diluted weighted average common shares are outstanding options and broker warrants. The exercise price of the options and warrants was greater than the average market price of the Company's common shares therefore they are excluded from the calculation of fully diluted shares.

7. Contributed Surplus

	Period Ending	
	March 31, 2008	December 31, 2007
Balance, beginning of year	\$934,088	\$679,167
Value attributed to stock options granted	\$25,648	\$122,937
Transfer of carrying value of warrants expired	-	\$131,984
Balance, end of year	\$959,736	\$934,088

8. Stock-Based Compensation Plans

The Company has a Stock Option Plan for Directors, Officers and Consultants. As of March 31, 2008 there were 2,960,000 options granted with an exercise price of \$0.085, \$0.155, \$0.33, \$0.345, and \$0.56 per share exercisable at various dates to August 22, 2012. The exercise price of each option equalled or exceeded the market price of the Company's common shares on the date of each grant.

The following table summarises the information about the stock options:

	March 31, 2008		December 31, 2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options				
Outstanding, beginning	3,635,000	\$0.26	2,350,000	\$0.39
Granted	-	-	1,760,000	\$0.09
Exercised		-	-	
Cancelled	(675,000)	\$0.25	(475,000)	\$0.30
	<u>2,960,000</u>	<u>\$0.26</u>	<u>3,635,000</u>	<u>\$0.26</u>

The new CICA requirement to determine a compensation cost associated with the granting of Stock Options was implemented by the Company on January 01, 2004

The assumptions used to calculate stock-based compensation expense for the options granted in 2007 is estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	2008	2007
Volatility factor of expected market prices (%)	-	168%
Weighted average risk-free interest rate (%)	-	3.88%
Weighted average expected life of options (years)	-	5
Dividend yield (%)	-	-

The options granted in 2005, 2006 and 2007 vest over a three year period and will be charged to earnings over that three year period.

9. Discontinued operations

On August 1, 2007, the Company sold Zhoda, its wholly owned subsidiary, to Shelton Canada Corporation (“Shelton”) for consideration of \$1,000,000 cash and 6,997,507 common shares of Shelton as well as Shelton’s oil and gas properties located in Flat Rock, B.C. and Alexander, Alberta valued at \$ 430,000. The carrying value attributed to the Shelton properties received a 10% discount factor. A loss on this sale of \$3,638,656 was recognized. The discontinued operations of Zhoda are as follows:

	Period Ending March 31	
	2008	2007
Revenues	\$-	\$1,578,415
Less: royalties	-	(745,834)
Operating costs	-	(335,522)
Depreciation, depletion & amortization	-	(128,828)
General and administration	-	(37,635)
Other	-	17,321
Income taxes	-	(125,986)
Net earnings - discontinued operations	-	221,931
Loss on sale	-	-
Net (loss) earnings from discontinued operations	<u>\$-</u>	<u>\$221,931</u>

On January 12, 2008 the Company sold its interest in its Trinidad properties for US \$250,000 and as a result the assets were written down in 2007 to the value received. For financial purposes the operations and assets are treated as discontinued operations. The discontinued operation of the Trinidad assets is as follows:

Operations	Period Ending March 31	
	2008	2007
Revenues	\$-	\$22,931
Less: royalties	-	(7,952)
Operating costs	-	(12,161)
Depreciation, depletion & amortization	-	(669)
General and administration	(825)	(1,420)
Other	23,633	(273)
Income taxes	-	(279)
Net earnings - discontinued operations	22,808	177
Loss on sale	-	-
Net (loss) earnings from discontinued operations	<u>\$22,808</u>	<u>\$177</u>

The cumulative net (loss) earnings from discontinued operations for both Zhoda and the Trinidad operations are:

Net (loss) earnings from discontinued operations \$ 22,808 \$ 222,108

Net (loss) earnings from discontinued operations per common share:
 Basic and diluted (Note 6) \$ 0.001 \$ 0.006

	Period Ending March 31, 2008		
	Trinidad	Zhoda	Total
Cash and cash equivalents	\$16,832	-	\$16,832
Receivables and others	\$594	-	\$594
	<u>\$17,426</u>	<u>-</u>	<u>\$17,426</u>
Property and equipment	\$-	-	\$-
Payables and accruals	(\$6,127)	-	(\$6,127)
Asset retirement obligations	(\$-)	-	-
Net assets	<u>\$11,299</u>	<u>-</u>	<u>\$11,299</u>

Period Ending December 31, 2007

	<u>Trinidad</u>	<u>Zhoda</u>	<u>Total</u>
Cash and cash equivalents	\$5,091	\$-	\$5,091
Receivables and others	67,639	-	67,639
	72,730	-	72,730
Property and equipment	243,931	-	243,931
Payables and accruals	(22,683)	-	(22,683)
Asset retirement obligations	(22,538)	-	(22,538)
Net assets	<u>\$271,440</u>	<u>\$-</u>	<u>\$271,440</u>

10. Subsequent events

- a) On January 28, 2008, Kroes and Vecta Energy Corporation (“Vecta”), a private Alberta corporation, entered into an agreement dated January 28, 2008, whereby Kroes and Vecta will merge, as equals, all of their businesses and operations. The merger will be accomplished by Kroes making a take-over bid for all of the issued and outstanding shares of Vecta. The take-over bid by Kroes and the completion of the merger are subject to the conclusion of a definitive agreement between the parties, finalization of due diligence and regulatory approval.

11. Management Disclosure

These financial statements have been prepared by management and have not been reviewed by an external auditor.

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