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**KROES ENERGY INC.
UNAUDITED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
MARCH 31, 2009**

**NOTICE OF NO AUDITOR REVIEW OF
INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim consolidated financial statements by an entity's auditors.

KROES

ENERGY INC.

FIRST QUARTER REPORT
For the Three Months Ended March 31, 2009

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 three months ended March 31, 2009 and its financial position as at March 31, 2009. The MD&A should be read in conjunction with the financial statements and the related notes thereto. For additional information and details, readers are referred to the annual financial statements and annual MD&A for 2008, 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, and could have a material impact on future prospects. Readers are cautioned that actual events and results will vary.

Forward Looking Information

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as forward-looking statements") within the meaning of Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. Forward-looking information typically contains statements with words such as "anticipate", "believe", "plan", "continuous", "estimate", "expect", "may", "will", "project", "should", or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements pertaining to the following:

- revenues;
- production levels;
- natural gas prices;
- gathering, processing and transportation fees;
- royalty rates and expense;
- production expense;
- transportation expense;
- depletion, depreciation and accretion rate;
- general and administrative expenses;
- capital expenditures;
- exploration and development drilling program;
- sources of funding;
- 2009 capital program, and
- level of bank debt.

Undue reliance should not be placed on forward-looking statements, which are inherently uncertain, are based on estimates and assumptions, and are subject to known and unknown risks and uncertainties (both general and specific) that contribute to the possibility that the future events or circumstances contemplated by the forward-looking statements will not occur. There can be no assurance that the plans, intentions or expectations upon which forward-looking statements are based will in fact be realized. Actual results will differ, and the difference may be material and adverse to the Company and its shareholders.

Forward-looking statements are based on the Company's current beliefs as well as assumptions made by, and information currently available to, the Company concerning anticipated financial performance, business prospects, strategies, regulatory developments, future natural gas commodity prices, future natural gas production levels, the ability to obtain equipment in a timely manner to carry out development activities, the ability to market natural gas successfully to current and new customers, the impact of increasing competition, the ability to obtain financing on acceptable terms, and the ability to add production and reserves through development and exploration activities. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

By their very nature, forward-looking statements involve inherent risks and uncertainties (both general and specific) and risks that forward-looking statements will not be achieved. These factors include, but are not limited to: risks associated with oil and gas exploration, financial risks, substantial capital requirements, bank financing, government regulation, environmental, prices, markets and marketing, dependence on key personnel, co-existence with mining operations, availability of drilling equipment and access, risks may not be insurable, management of growth, expiration of licenses and leases, reserves estimates, seasonality, competition, conflicts of interest, issuance of debt, title to properties, variations in exchange rates, and hedging. Further information regarding these factors may be found under the heading "Risk Factors" in the Annual Information Form. Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive.

Certain of the forward-looking statements in this MD&A may constitute "financial outlooks" as contemplated by National Instruments 51-102 *Disclosure Obligations*, including information related to projected revenues, expenses, capital expenditures and production for 2009, which are provided for the purpose of forecasting the financial position of Kroes at the end of the 2009 financial year. Please be advised that the financial outlook in this MD&A may not be appropriate for purposes other than the one statement above.

The forward-looking statements contained in this MD&A are made as of the date hereof and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, except as required by applicable law. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

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 Equivalent

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 sum oil and natural gas measurement units into one 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. Conversely, liquid barrels are converted to a mcf equivalent (Mcf) at the ratio of one barrel equals six mcf.

Overview

Kroes is a junior oil and gas company headquartered in Calgary, Alberta, Canada and is listed on the TSX Venture Exchange. The Company has shallow natural gas production in central Alberta and has exploratory acreage and production in the central foothills of Alberta. As of the date of this report, Kroes has 14 wells on production and has 6 wells that are suspended awaiting evaluation or connection.

Acquisition of Vecta Energy

On July 30, 2008, the Company acquired 97% of Vecta Energy Corporation’s (“Vecta”) issued and outstanding shares. The balance of the shares were compulsorily acquired under provisions of the Alberta Business Corporations Act on August 26, 2008 whereby Vecta became a 100% owned subsidiary of Kroes. The terms of the acquisition provided that Kroes purchase all the shares of Vecta for 2.456633 Kroes shares and 0.54220918 Kroes Class 1 Performance Warrants for each Vecta share and the Vecta debenture for 6,612,500 Kroes shares and 5,312,500 Kroes Class 2 Performance Warrants. The Vecta shareholders and the debenture holder received 35,986,521 Kroes shares in aggregate. Vecta was amalgamated into Kroes on September 30, 2008.

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. The Company’s financial information for Trinidad is presented separately on a discontinued operations basis.

Financial and Operating

Over the past 6 months natural gas prices have dropped from roughly \$8.00/mcf to below \$4.00/mcf and have had a significant negative impact on financial results for the first quarter of 2009.

As a result of increased activity in 2008 when it appeared natural gas prices were trending upward, Kroes spent \$2,177,000 million on exploration and development activity by participating in the drilling of 10 wells, of which 6 are now producing, 3 are suspended and one was a dry hole. As a consequence of the capital program and costs related to the closing of the

Vecta acquisition, a working capital deficit of \$658,000 existed at December 31, 2008. The working capital deficit is expected to persist as long as natural gas prices remain depressed. The Company has taken steps to alleviate this situation by: cutting officer compensation by 50%; restricting the use of consultants to a minimum; and cutting administrative costs. In addition, the Company is investigating the possible sale of assets as well as exploring merger and joint venture possibilities. The Company's objective is to eliminate the working capital deficit by the end of the third quarter of 2009.

For the three months ended March 31, 2009 Kroes Energy's continuing operations recorded a net loss of \$331,645 compared to a loss of \$86,627 for the same period in 2008. Cash flow for the quarter was (\$62,209) compared to \$153,165 in the first quarter of 2008. This deterioration of financial performance is primarily the result of the significant decline in natural gas prices over the last six months. Production volumes for the quarter totalled 123 barrels of oil equivalent per day (boe/d) compared with 96 boe/d in the first quarter of 2008.

At March 31, 2009 the Company had negative working capital of \$779,595 that includes a draw down of \$225,000 on its revolving line of credit.

The following table summarizes the Company's financial results for the 1st quarter 2009 and 2008.

	Three Months Ended	
	March 31, 2009	March 31, 2008
Cash Flow from continuing operations	(\$62,209)	\$153,165
Per Share – Basic and diluted	(\$0.001)	\$0.004
Net earning (loss) from continuing operations	(\$331,645)	(\$86,627)
Per Share – Basic and diluted	(\$0.005)	(\$0.002)
Net earnings (loss)	(\$332,576)	(\$63,819)
Per Share – Basic and diluted	(\$0.005)	(\$0.002)
Weighted Average Shares Outstanding		
- Basic and fully diluted	72,220,009	36,233,488

Western Canada Operations

Due to low natural gas prices, the Company's partners that operate Kroes' natural gas exploration and development programs have severely curtailed their activities. Similarly, shrinking cash flows have also meant that Kroes has no funds available to proceed with new activities. As a result, the Company has no choice but to "hunker down" until prices and revenues improve. The only activity presently planned is the completion of the Brewster 8-22 well and that may occur in the fourth quarter. Kroes has a 7.5% interest in this successful well that was drilled in 2008, but the completion was suspended due to a lack of pipeline connection and, more recently, to low natural gas prices.

Management's Discussion and Analysis

Production and Sales Volumes

	Three Months Ended	
	March 31, 2009	March 31, 2008
	<u>Liquids</u>	<u>Liquids</u>
Daily Production Volumes		
Natural gas (Mcf per day)	713	580
Crude oil and liquids (Bbls per day)	4	-
Daily Sales Volumes		
Natural gas (Mcf per day)	663	574
Crude oil and liquids (Bbls per day)	4	-
Boe equivalent (6 mcf to 1 barrel)	<u>123</u>	<u>96</u>
Mcf equivalent (1 barrel equals 6 mcf)	<u>689</u>	<u>576</u>

Natural gas production increased by 23% to 713 mcf per day from 580 mcf per day in 2008 reflecting the continuing growth in production over the year. Liquids production increased to 4 barrels per day as a result of the Brewster 15-11 well coming on stream in July 2008.

Revenue

	Three Months Ended	
	March 31, 2009	March 31, 2008
	<u>Liquids</u>	<u>Liquids</u>
Oil	\$22,149	\$2,537
Natural gas	285,025	390,977
	<u>\$307,174</u>	<u>\$393,514</u>
\$/Mcf	<u>\$4.95</u>	<u>\$8.03</u>
Prices		
Crude oil and liquids (per barrel)	<u>\$56.07</u>	<u>\$90.60</u>
Natural gas (per mcf)	<u>\$4.78</u>	<u>\$8.01</u>
Mcf	<u>\$4.95</u>	<u>\$8.03</u>

Revenue from continuing oil and gas operations fell by 22% to \$307,174 in the first quarter 2009 as a result of a 40% decline in natural gas prices, partially offset by a 23% increase in production.

Kroes average natural gas price in the first quarter of 2009 was \$4.78 per mcf, down 40% from the \$8.01 received in the first quarter of 2008.

Royalties

	Three Months Ended	
	March 31, 2009	March 31, 2008
Royalty expenses	\$65,278	\$81,954
\$/Mcf	\$1.05	\$1.67
Royalty rate	21%	21%

Royalty payments in the first quarter of 2009 were \$65,278 as compared to \$81,954 in the same period of 2008. The decrease in royalties paid in 2009 resulted from decreased natural gas price received in the periods. The royalty rate during the first quarter 2009 was 21% the same as in the first quarter 2008.

Operating Expenses

	Three Months Ended	
	March 31, 2009	March 31, 2008
Lifting & processing costs	111,827	68,351
Transportation	16,956	17,059
	\$128,783	\$85,410
\$/Mcf	\$2.08	\$1.74

Lift and processing costs were higher in 2009 due to higher volumes and higher unit costs related to the Brewster 11-15 well. The Company is investigating opportunities to reduce costs associated with this well. In the first quarter 2009, total production costs were \$128,783 as compared with \$85,410 in the same period last year. Unit operating costs were \$2.08 per mcf in 2009 as compared with \$1.74 per mcf in 2008.

Interest Expenses

	Three Months Ended	
	March 31, 2009	March 31, 2008
Interest	\$833	-
\$/Mcf	\$0.01	-

Interest expenses were \$833 in the first quarter 2009 as the Company accessed its \$1,000,000 revolving line of credit in March 2009. At the end of the quarter the draw on the line of credit was \$225,000. Interest is payable at prime plus 2% on the amount drawn as well as a 0.0175% standby fee on the balance remaining. As of May 31, 2009, the National Bank reduced the line of credit to \$500,000 as a result of lower natural gas prices and the attendant reduction in the value of the Company's natural gas reserves.

General and Administrative Expenses

	Three Months Ended	
	March 31, 2009	March 31, 2008
Management, administration & consulting fees	\$82,353	\$33,924
Legal, accounting & auditing	21,377	11,889
Trustee, TSX listing and shareholder communications	10,820	10,693
Office rent	29,350	13,589
Office expenses and other	<u>30,590</u>	<u>14,859</u>
	<u>\$174,490</u>	<u>\$84,954</u>
\$/Mcf	<u>\$2.81</u>	<u>\$1.73</u>

General and administrative expenses increased to \$174,490 in the first quarter 2009 from \$84,954 for the same period in 2007. General and administrative expenses increased by 105% primarily as a result of the acquisition of Vecta in 2008. General and administrative expenses are expected to drop by about 40% in the second half of 2009 after cost cutting measures have been fully implemented.

Stock Based Compensation

	Three Months Ended	
	March 31, 2009	March 31, 2008
Stock based compensation	<u>\$28,355</u>	<u>\$25,648</u>
\$/Mcf	<u>\$0.46</u>	<u>\$0.52</u>

In the first quarter of 2009, stock based compensation charges were \$28,355 compared to \$25,648 in the first quarter 2008. 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, Depreciation and Accretion

	Three Months Ended	
	March 31, 2009	March 31, 2008
Depletion, depreciation and accretion	\$241,081	\$214,144
\$/Mcf	\$3.89	\$4.37

In the first quarter of 2009, depletion and depreciation increased to \$241,081 from \$214,144 in 2008, as a result of higher production and increased capital costs. The unit depletion and depreciation costs were \$3.89 per mcf in the first quarter of 2009 as compared with \$4.37 per mcf in the first quarter of 2008.

Netbacks

	Three Months Ended March 31	
	2009	2008
	<i>\$/Mcf*</i>	<i>\$/Mcf*</i>
Oil and natural gas sales	\$4.95	\$8.03
Royalties	(1.05)	(1.67)
Operating expenses	(2.08)	(1.74)
Field operating netback	1.82	4.62
General and administrative and other	(2.82)	(1.50)
Corporate netback	(\$1.00)	\$3.12

*Liquids production converted to mcf at 6 mcf to 1 barrel.

The average field operating netback to the Company in the first quarter of 2009 was \$1.82 per mcf versus \$4.62 in 2008. The steep decline in natural gas prices in late 2008 and 2009 resulted in the decline in field operating netbacks. After administrative and corporate items, the corporate netback fell to (\$1.00) in the 1st quarter 2009.

Capital Additions

	Three Months Ended March 31	
	2009	2008
P&NG Properties		
Land Acquisitions	\$5,436	\$66,040
Non Producing Property Expense	833	-
Geological & Seismic	-	73,754
Exploration Drilling/Completions	46,944	10,622
Product & Gathering Equipment	5,113	3,888
	<u>\$58,326</u>	<u>\$154,304</u>
Office Furniture & Equipment	-	3,706
Total Capital Additions	<u>\$58,326</u>	<u>\$158,010</u>

In the first quarter of 2009 capital additions decreased to \$58,010 compared to \$158,010 in 2008, reflecting the curtailment of activities in 2009 due to the low price environment.

Financial, Liquidity and Solvency

At March 31, 2009 the Company had working capital of (\$779,595) compared with (\$658,128) at the beginning of 2009. The Company had one million dollars available from its revolving credit facility. The credit available to the Company is in part determined by the Company's borrowing base which is largely dependent on the Company's petroleum and natural gas reserves. If, at any time during the term of the credit facility, the lender has reason to believe that the borrowing base has materially declined, the lender can recalculate the Company's borrowing base and can as a result, decrease the credit currently available to the Company. Effective May 31, 2009, the Company has been advised by the bank that its credit facility has been reduced to \$500,000 as a result of the lower value of its oil and gas reserves based on current prices.

Share Capital and Stock Options

	December 31, 2008	December 31, 2008
Common shares outstanding	72,220,009	72,220,009
Warrants outstanding	-	3,827,449
Stock options outstanding	5,560,000	5,760,000
Fully diluted	<u>77,780,009</u>	<u>81,807,458</u>

As of March 31, 2009, all of the 3,827,449 warrants outstanding in 2008 expired unexercised.

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.

	2009		2008			2007		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial								
Oil and gas gross revenue (\$000's)	\$307	\$452	\$573	\$404	\$394	\$341	\$114	\$126
Royalties (\$000's)	65	100	139	87	82	67	25	32
Operating expenses	129	109	108	78	85	89	36	31
Cash flow from continuing operations (\$000's)	(62)	(18)	149	144	153	(238)	(44)	132
Per basic share and diluted	(\$0.001)	(\$0.001)	\$0.003	\$0.004	\$0.004	(\$0.007)	(\$0.001)	\$0.004
Net (Loss) Income from continuing operation (\$000's)	(\$332)	(500)	(179)	(71)	(87)	(335)	(281)	30
Per basic share and diluted	(\$0.005)	(\$0.007)	(\$0.004)	(\$0.002)	(\$0.002)	(\$0.010)	(\$0.008)	\$0.001
Weighted shares outstanding (millions)	72.2	72.2	58.0	36.2	36.2	36.2	36.2	36.2
Operating								
Liquids production (Bbl/d)	4	7	8	-	-	2	1	-
Natural gas production (Mcf/d)	713	711	712	473	574	613	227	204
Liquids price \$/Bbl	\$56.07	\$48.93	\$74.18	\$115.39	\$90.60			
Natural gas price \$/Mcf	\$4.78	\$7.09	\$8.12	\$10.30	\$8.01	\$6.16	\$5.33	\$7.30

Additional Disclosures

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 comprehensive discussion of Kroes' significant accounting policies and estimates may be found in Note 2 to the financial statements.

Changes in Accounting Policies

As of January 1, 2009, the Company will be required to adopt the CICA Handbook Section 3064, "Intangible Assets". The new section establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets and replaces the existing Handbook Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development costs". Intangible assets associated with the exploration and development of oil and gas assets are specifically excluded under the new standard. The adoption of this standard should not have a material impact on the Company's financial statements.

“In February 2008, the CICA Accounting Standards Board (“AcSB”) confirmed the transition from Canadian Generally Accepted Accounting Principles (“GAAP”) to International Financial Reporting Standards (“IFRS”) and set the date for convergence at January 1, 2011. The Company is in the process of scoping the magnitude of the conversion project, identifying areas where differences exist between GAAP and IFRS and identifying areas where significant choices exist between alternative accounting treatments. The Company expects the transition to IFRS to have an impact on the financial statements.

Directors and officers as at the date of this report:

Fred Callaway	Executive Chairman
Thomas D. Coffman	President & CEO
Stewart D. Gossen	Vice President Finance & CFO
Charles V. Selby	Vice President Business Development
Kenneth West	Director
C. James Cummings	Director
Darrell M. Zakreski	Director
Allen Gilmer	Director
David R. Malarchuk	Controller

On behalf of the Board,

“Tom Coffman”

Tom Coffman, President
May 29, 2009

Kroes Energy Inc.
Consolidated Balance Sheets
(unaudited)

	March 31, 2009	December 31, 2008
ASSETS		
Current		
Cash and cash equivalents	\$ -	\$174,298
Receivables and other	299,439	397,027
Prepays and deposits	4,031	4,031
Assets of discontinued operations	12,758	12,758
	<u>316,228</u>	<u>588,114</u>
Capital assets		
Properties and equipment (Note 3)	5,991,900	6,173,604
	<u>\$6,308,128</u>	<u>\$6,761,718</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Payables and accruals	\$868,658	\$1,245,009
Revolving line of credit	225,000	-
Liabilities of discontinued operations (Note 9)	2,165	1,233
	<u>1,095,823</u>	<u>1,246,242</u>
Asset retirement obligations (Note 5)	93,620	92,570
Future tax liability	364,983	364,983
Shareholders' equity		
Capital stock (Note 6)	9,107,951	9,107,951
Warrants	-	17,402
Contributed surplus	1,108,232	1,062,475
(Deficit) retained earnings	(5,462,481)	(5,129,905)
	<u>4,753,702</u>	<u>5,057,923</u>
	<u>\$6,308,128</u>	<u>\$6,761,718</u>

Kroes Energy Inc.
Consolidated Statements of Operations, Comprehensive Income(Loss) and
Retained Earnings
(unaudited)

	Three months ended	
	March 31, 2009	March 31, 2008
Revenue		
Oil and natural gas sales	\$307,174	\$393,514
Royalties	(65,278)	(81,954)
	241,896	311,560
Expenses		
Operating	111,827	68,351
Transportation	16,956	17,059
Interest	833	-
General and administrative	174,490	84,954
Stock based compensation	28,355	25,648
Depletion and depreciation	241,081	214,144
	573,542	410,156
Loss before other items and income taxes	(331,646)	(98,596)
Other items		
Interest and other income	1	11,969
Net loss before income taxes	(331,645)	(86,627)
Income taxes	-	-
Net loss from continuing operations	(331,645)	(\$86,627)
Net (loss) earnings from discontinued operations	(931)	22,808
Net loss and comprehensive loss	(\$332,576)	(\$63,819)
Net (loss) per share amounts from continuing operations		
Basic and diluted (Note 7)	(\$0.005)	(\$0.002)
Net (loss) per share amounts		
Basic and diluted (Note 7)	(\$0.005)	(\$0.002)
(Deficit) retained earnings - Beginning of period	(\$5,129,905)	(\$4,316,654)
Net (loss) earnings	(\$332,576)	(\$63,819)
(Deficit) retained earnings - End of period	(\$5,462,481)	(\$4,380,473)
Weighted average number of fully diluted shares outstanding	72,220,009	36,233,488

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

	Three months ended	
	March 31, 2009	March 31, 2008
Operating Activities		
Net loss	(\$331,645)	(\$86,627)
Items not affecting cash		
Depletion and depreciation	241,081	214,144
Stock option compensation	28,355	25,648
Unrealized foreign exchange gain		
Cash flow from operations	(62,209)	153,165
Change in non-cash working capital	(52,831)	(175,605)
	(115,040)	(22,440)
Investing		
Additions to property plant and equipment	(58,326)	(158,010)
Net change in cash and cash equivalents	(173,366)	(180,450)
Net cash flows of discontinued operations	(932)	282,949
Cash and cash equivalents,		
Beginning of period	174,298	1,152,259
End of period	\$ -	\$1,254,758

Kroes Energy Inc.
Notes to the Consolidated Financial Statements
Period Ended March 31, 2009

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.

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

On July 30, 2008, the Company acquired 97% of Vecta Energy Corporation's ("Vecta") issued and outstanding common shares and debentures. The balance of the common shares were compulsorily acquired under provisions of the Alberta Business Corporations Act on August 26, 2008 whereby Vecta became a 100% owned subsidiary of Kroes. The Vecta shareholders and the debenture holder received 35,986,521 Kroes shares in aggregate. The acquisition has been accounted for using the purchase method with the results of operations included in the financial statements from the date of acquisition. Both companies were amalgamated on September 30, 2008.

These 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 period ended March 31, 2009, the Company has a net loss from continuing operations of \$331,645 (\$86,627 for the period ended March 31, 2008) and cash flow from operating activities of a negative \$62,209 (positive \$153,165 for the period ended March 31, 2008). At March 31, 2009, the Company had a working capital deficiency of \$779,595.

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. Management has assessed its credit facilities and capital requirements in the first quarter 2009 and is considering additional equity financings as well as partnership opportunities in order to execute its operating and capital commitments in 2009. Although, in the opinion of management, the use of going concern assumption is appropriate, there can be no assurance that any steps management is taking will be successful.

These 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 Company is engaged in the exploration, development and acquisition for and production of petroleum and natural gas in Canada.

The interim financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles and are unaudited. The interim financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the period ended December 31, 2008. The disclosures which follow do not include all the disclosures required for annual financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2008.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The Company sold its interest in its Trinidad properties on January 12, 2008 and as a result the operations and assets are treated as discontinued operations for financial purposes.

Changes in accounting policy

As of January 1, 2009, the Company has adopted the CICA Handbook Section 3064, "Intangible Assets". The new section establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets and replaces the existing Handbook Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development costs". Intangible assets associated with the exploration and development of oil and gas assets are specifically excluded under the new standard.

"In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the transition from Canadian Generally Accepted Accounting Principles ("GAAP") to International Financial Reporting Standards ("IFRS") and set the date for convergence at January 1, 2011. The Company is in the process of scoping the magnitude of the conversion project, identifying areas where differences exist between GAAP and IFRS and identifying areas where significant choices exist between alternative accounting treatments. The Company expects the transition to IFRS to have an impact on the financial statements.

3. Property Plant and Equipment

March 31, 2009			
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Exploration and developments costs	\$7,219,211	\$1,544,208	\$5,675,003
Production equipment and processing facilities	476,030	238,614	237,416
Office equipment	47,072	26,401	20,671
Retirement costs of long lived assets	89,276	30,466	58,810
	<u>\$7,831,589</u>	<u>1,839,689</u>	<u>\$5,991,900</u>

December 31, 2008			
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Exploration and developments costs	\$7,118,823	\$1,339,058	\$5,779,765
Production equipment and processing facilities	518,092	210,554	307,538
Office equipment	47,072	25,332	21,740
Retirement costs of long lived assets	89,276	24,715	64,561
	<u>\$7,773,263</u>	<u>\$1,599,659</u>	<u>\$6,173,604</u>

4. Credit facilities

As at March 31, 2009, the Company had arranged a \$1,000,000 revolving operating bank loan with the National Bank of Canada. The terms of the loan repayment provide for interest only, but are subject to availability, review and the lender's right of demand. Interest is charged at a rate of prime plus 2% per annum. As of March 31, 2009, there was \$225,000 drawn down on this credit facility. The credit facility is secured by a floating charge debenture in the amount of \$5,000,000 covering all the assets of the Company. The Company has been advised by the bank that its credit facility has been reduced to \$500,000 as a result of the lower value of its oil and gas reserves based on current prices.

5. 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, 2009	December 31, 2008
Asset retirement obligations, beginning of period	\$92,570	\$32,736
Liabilities incurred	-	16,351
Revision of estimates	-	1,768
Accretion expenses	1,050	41,715
Asset retirement obligations, end of period	\$93,620	\$92,570

6. Share Capital

a) Authorized:

Unlimited number of common shares

Unlimited number of preferred shares issuable in series

b) Issued and outstanding

	March 31, 2009		December 31, 2008	
	Number of Shares	Amount	Number of Shares	Amount
Common shares				
Balance, beginning of year	72,220,009	\$9,107,951	36,233,488	\$6,660,868
Shares issued for the acquisition of Vecta	-	-	30,674,021	2,085,833
Class 2 performance warrants	-	-	5,312,500	361,250
Balance, end of year	72,220,009	\$9,107,951	72,220,009	\$9,107,951

c) Share purchase warrants

	March 31, 2009		December 31, 2008	
	Number of Warrants	Amount	Number of Warrants	Amount
Balance, beginning of year	2,434,538	\$8,784	-	-
Issued on acquisition of Vecta	-	-	2,434,538	\$8,784
Expired Warrants	(2,434,538)	(\$8,784)	-	-
Balance, end of year	-	-	2,434,538	\$8,784

As part of the Vecta acquisition (Note 1), the Company assumed 2,434,538 outstanding Vecta share purchase warrants, exercisable at \$0.61 for a six months period determined from a period after the common shares of Vecta are listed and posted for trading on the TSX Stock Exchange. These warrants were issued through a private placement of \$8.2 million by Vecta in November 2005. The fair value of these warrants approximated \$8,784 or \$0.0036 per warrant. The fair value of these warrants were estimated using the Black-Scholes option pricing model with an average risk-free interest rate of 3.3%, expected life of 0.6 years, volatility in the price of the Company's common shares of 165% and a dividend yield of 0.00%. These warrants expired unexercised in March 2009.

d) Agents warrants and options

	March 31, 2009		December 31, 2008	
	Number of Warrants	Amount	Number of Warrants	Amount
Balance, beginning of year	1,392,911	\$8,618	-	-
Issued on acquisition of Vecta	-	-	1,392,911	\$8,618
Expired Warrants	(1,392,911)	(\$8,618)	-	-
Balance, end of year	-	-	1,392,911	\$8,618

As part of the Vecta acquisition the Company assumed Vecta's agent's warrants issued as a result of a private placement by Vecta in November 2005. Vecta issued 1,392,911 agent warrants to the agent, exercisable at \$0.41 per warrant for a six months period determined from a period after the common shares of Vecta are listed and posted for trading on the TSX Stock Exchange. The number of warrants and exercise price have been factored by the rate of Kroes shares issued on the Vecta transaction. The fair value of these agent warrants approximated \$8,618 or \$0.0061 per warrant. The fair value of these warrants was estimated using the Black-Scholes option pricing model with an average risk-free interest rate of 3.3%, expected life of 0.6 years, volatility in the price of the Company's common shares of 165% and a dividend yield of 0.00%. These warrants expired unexercised in March 2009.

e) Contributed surplus

	March 31, 2009	December 31, 2008
Balance, beginning of year	\$1,062,475	\$934,088
Value attributed to stock options granted	28,355	128,387
Transfer of carrying value of warrants expired	17,402	-
Fair value of options cancelled	-	-
Balance, end of year	\$1,108,232	\$1,062,475

7. Per share information

Basic net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding for the year. Diluted net earnings per common share is computed by dividing net loss by the diluted weighted average number of common shares outstanding for the year. In the calculation of diluted per share amounts, options under the stock option plan and purchase warrants are assumed to have been converted or exercised on the later of the beginning of the year or the date granted. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. In net loss per share situations, the diluted per share amount is the same as basis, as all factors are anti-derivatives.

	Three Months Ended March 31	
	2009	2008
Basic and fully diluted	<u>72,220,009</u>	<u>36,233,488</u>

In the calculation of diluted weighted average shares outstanding, the Company excluded 5,560,000 options (2008 – 5,760,000 options and 3,827,449 warrants) as the exercise price was greater than the average market price of its common shares.

8. Stock-Based Compensation Plans

The Company has a Stock Option Plan for Directors, Officers and Consultants. As of March 31, 2009 there were 5,560,000 options granted with an exercise price of \$0.10, \$0.155, \$0.345, and \$0.56 per share exercisable at various dates to July 13, 2013. 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, 2009		December 31, 2008	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Averaged Exercise Price
Options				
Outstanding, beginning	5,760,000	\$0.19	3,635,000	\$0.26
Granted			2,800,000	\$0.10
Cancelled/Expired	<u>(200,000)</u>	<u>\$0.33</u>	<u>(675,000)</u>	<u>\$0.30</u>
	<u>5,560,000</u>	<u>\$0.18</u>	<u>5,760,000</u>	<u>\$0.19</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 2008 is estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	March 31, 2009	December 31, 2008
Volatility factor of expected market prices (%)	-	165%
Weighted average risk-free interest rate (%)	-	3.30%
Weighted average expected life of options (years)	-	5
Dividend yield (%)	-	-

The options granted in 2005, 2006, 2007 and 2008 vest over a three year period and will be charged to earnings over that three year period.

9. Discontinued operations

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 net proceeds received. For financial purposes, the cost centre operations and assets are treated as discontinued operations. The results of the discontinued operations of the Trinidad assets were as follows:

	March 31, 2009	March 31, 2008
General and administrative	\$ (931)	\$ (825)
Other	-	\$ 23,633
Net earnings (loss) from discontinued operations	\$ (931)	\$ 22,808
Net earnings (loss) from discontinued operations per common share:		
Basic and diluted (Note 7)	\$ 0.000	\$ 0.001

The impact of discontinued operations on the Company's balance sheet is as follows:

	March 31, 2009	December 31, 2008
Cash and cash equivalents	\$ 12,628	\$ 12,628
Receivables and other	\$ 130	\$ 130
Net earnings (loss) from discontinued operations	\$ 12,758	\$ 12,758
Payables and accruals	\$ (2,165)	\$ (1,233)
Net Assets	\$ 10,593	\$ 11,525

10. Financial instruments and risks associated with assets and liabilities

Fair values

The Company's financial instruments consist of cash and cash equivalents, receivables and other, and payables and accruals. The fair value of the financial instruments approximate their book values due to the relatively short-term maturities.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At March 31, 2009, the Company had negative working capital of \$779,595 and had drawn down \$225,000 on its one million dollar revolving credit facility. The credit currently available to the Company is in part determined by the Company's borrowing base which is largely dependent on the Company's petroleum and natural gas reserves. If, at any time during the term of the credit facility, the lender has reason to believe that the borrowing base has materially declined, the lender can recalculate the Company's borrowing base and could as a result, decrease the credit currently available to the Company. The Company has been advised by the bank that its credit facility has been reduced to \$500,000 as a result of the lower value of its oil and gas reserves based on current prices.

Commodity price risk

The Company is exposed to risks from fluctuations in the price of natural gas. During the year, the Company did not have any derivative financial instruments in place to manage this risk. When appropriate, Kroes will enter into forward sale commitments, in limited quantities and at fixed prices, with the Board of Director's approval. The Company does not use derivative financial instruments for speculative purposes.

Credit risk management

Receivables and other include amounts receivable for oil and natural gas sales which are generally made to large credit worthy purchasers and accounts receivable from joint venture partners which are generally recoverable from production. Accordingly, the Company views credit risks on these amounts as low. The maximum credit risk exposure associated with the Company's financial assets is the carrying value.

The cash equivalents consist mainly of amounts held with reputable financial institutions. None of the cash equivalents are in asset backed commercial paper products. Management believes the risk of loss is minimal.

Foreign currency risk

The Company has cash and cash equivalents, receivables, and payables and accruals denominated in foreign currencies related to discontinued operations, and thus are exposed to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign

currency risk. The Company believes their exposure is minimal given the minimal amount of foreign currency held at year end.

11. Capital management

Management's objective when managing capital is to provide an adequate return to its shareholders and to safeguard the Company's ability to obtain financing and have access to capital. In the management of capital, the Company includes shareholders' equity, bank loan as well as cash and cash equivalents.

To facilitate the management of its capital structure, the Company prepares annual expenditure and operating budgets that are updated as necessary depending on success factors, industry conditions and operating cash flow. These annual and updated budgets are approved by the Board of Directors. Kroes has the ability to adjust its capital structure by making modifications to its capital expenditure program or by issuing new equity.

12. Management disclosure

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

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