MANAGEMENT'S DISCUSSION AND ANALYSIS

April 29, 2009

Following is management's discussion and analysis ("MD&A") of the results of operations for Kroes Energy Inc. ("Kroes") for the year ended December 31, 2008 and its financial position as at December 31, 2008. The MD&A should be read in conjunction with the Audited Financial Statements and the related notes thereto. For additional information and details, readers are referred to the quarterly financial statements and quarterly 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 in 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.

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 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.

Overview

Kroes is an independent, public company actively engaged in the exploration, development and production of petroleum and natural gas in Canada. In 2008, Kroes continued its western Canada program to explore and develop shallow gas prospects on landholdings in a concentrated area of central Alberta. Kroes also participated in drilling one well and recompleting another well in the Brewster area of Alberta as a result of its acquisition of Vecta Energy Corporation.

On March 28, 2007, the Company entered into an agreement with Shelton of 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 was 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.

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.

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

The following table summarizes the Company's financial results for the years 2008 and 2007.

	2008	**2007**
Cash flow from continuing operations	$428,329	($165,810)
Per share – Basic and diluted	$0.008	($0.005)
Net loss from continuing operations	($836,285)	($710,318)
Per share – Basic and diluted	($0.016)	($0.020)
Net loss	($813,251)	($4,092,260)
Per share – Basic and diluted	($0.016)	($0.113)
Weighted average shares outstanding		
- Basic and fully diluted	50,740,846	36,233,488

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.

Cash flow from continuing operations for 2008 was $428,329 compared to a negative $165,810 in 2007. Revenues generated in Canada increased from $725,460 in 2007 to $1,822,652 in 2008 as the western Canada shallow gas drilling program matured and the Company participated in the drilling of a new well in the Brewster area of Alberta. This resulted in higher operating costs and royalties as well, however net operating revenues increased to $1,034,049 in 2008 compared with $373,329 in 2007 all as a result of the new gas wells coming on production. Administrative costs increased in 2008 compared to 2007 as a result of the acquisition of Vecta. On a basic weighted average outstanding share basis, cash flow from continuing operations improved to $0.008 in 2008 from ($0.005) in 2007.

After the deduction of depletion and depreciation, asset retirement expenses, the net loss from continuing operations in 2008 increased to $836,285 from $710,318 in 2007. Having regard for discontinued operations, the net loss in 2008 was $813,251 compared to $4,092,260 which results from the disposition of assets in Ukraine and Trinidad.

Revenue & Production

Oil and gas revenue from continuing operations increased to $1,822,652 in 2008 from $725,460 in 2007 reflecting increased production from the shallow gas program and the Brewster area of Alberta. The average price for natural gas increased to $8.22 per mcf in 2008 from $6.48 per mcf in 2007. The table below sets out the relevant variables for Kroes' oil and gas production for continuing operations.

	2008	**2007**
P&NG Revenue		
Oil and natural gas liquids	$91,061	$21,067
Natural gas	1,731,591	$704,393
	$1,822,652	$725,460
Liquids Production Volumes		
Annual average (Bbls per day)	4	1
Exit – Month of December (Bbls per day)	5	1
Natural Gas Production Volumes		
Annual average (Mcf per day)	618	317
Exit – Month of December (Mcf per day)	664	587
Barrels of oil equivalent per day		
Annual average	107	54
Exit – Month of December	116	99
Average price per barrel	$65.13	$74.71
Average price per Mcf	$8.22	$6.48

Royalties
In 2008, royalties increased to $408,492 from $160,364 in 2007 reflecting increased production. The average royalty in 2008 was unchanged from the previous year at 22%.

Operating Expenses
Operating costs from continuing operations in 2008 amounted to $380,111 compared with $191,767 in 2007. Operating expenses include lifting costs of $297,820 and transportation costs of $82,291 ($159,404 and $32,363 respectively in 2007). This reflects a full year of natural gas production in 2008 whereas in 2007 the shallow gas program was in the early stages of development. Operating costs in 2008 were $10.40 per boe compared to $10.42 per Boe in 2007.

Administrative Expenses
General and administrative expenses from continuing operations increased to $627,973 in 2008 from $583,551 in 2007. An analysis is contained in the following table.

	2008	2007
Administration and consulting fees	$224,388	$185,890
Legal, audit and accounting fees	149,223	243,901
Trustee, compliance and listing fees	62,410	44,071
Office rent and business taxes	112,296	56,106
Office expenses and other	79,656	53,583
	$627,973	**$583,551**
$/Boe	$16.07	$29.78

General and administrative costs increased in 2008 compared to 2007 primarily due to the acquisition of Vecta. Administrative, consulting and office rent costs were higher in 2008 reflecting the additional administration costs due to the acquisition of Vecta. Legal, audit and accounting fees in 2008 were $94,678 lower than in 2007 due to the sale of Zhoda.

Stock Based Compensation
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. In 2008, stock based compensation expenses of $128,387 were charged against earnings as compared to $122,937 in 2007. In 2008, 2,800,000 options to purchase shares of Kroes Energy at $0.10 were granted with vesting occurring equally over 3 years.

Loss on value of Investments
On closing the sale of Zhoda on August 1, 2007, the Company received 6,997,507 shares of Shelton as a partial payment. At the time Shelton shares were valued at a price of $0.30 per share for a total value of $2,099,252. On August 22, 2007, when the Shelton shares were distributed to Kroes shareholders using a market price of $0.28, a distribution value of $1,959,302 was determined. The resulting loss of $139,950 was charged to earnings.

Depletion and Depreciation

In 2008, depletion and depreciation costs (including accretion costs) increased to $1,136,227 from $438,027 in 2007. This increase is due to increased capital expenditures in Canada in 2008 as well as increased gas production in 2008. Capital property additions were $5,400,069 in 2008 compared to $1,753,395 in 2007. In 2008 capital expenditures of $4,019,602 were excluded from the depletion calculation as these costs were deemed to be associated with undeveloped properties which did not have reserves associated with them. Future capital expenditures of $170,000 (2007 - $78,000), as estimated by the Company's independent engineers, relating to the development of proved reserves have been included in costs subject to depletion.

Netbacks

In 2008, the average field operating netback from continuing operations was $4.72 per mcf compared to $3.38 in 2007 reflecting higher gas prices in 2008.
The table below sets out the corporate cash flow netbacks for continuing operations for 2008 and 2007.

	2008	**2007**
	$/Mcf*	***$/Mcf****
Oil and natural gas sales	$8.31	$6.57
Royalties	(1.86)	(1.45)
Operating expenses	(1.73)	(1.74)
Field operating netback	**4.72**	**3.38**
General administrative and other	(2.77)	(4.88)**
Corporate netback	**$1.95**	**($1.50)**

* Liquids production converted to mcf at 6 mcf to 1 boe.
**Costs include general and administrative costs that relate to discontinued operations in Ukraine.

Income Tax Provision (Recovery)

A provision for income tax recovery from continuing operations of $156,406 was recorded in 2007. This relates to the future tax liability for capital expenditures renounced in 2006 and 2007 as a result of flow through shares that were issued in 2006. Non-capital loss carry forwards are estimated to be $5,112,659 in Canada as of December 31, 2008 (2007 - $2,074,358).

Capital Additions

In 2008, capital additions increased to $5,400,069 from $1,783,269 in 2007 reflecting increased operations in western Canada as well as $3,371,251 for properties acquired in the Vecta acquisition and $58,066 attributed to site restoration assets. Cash outlays for capital expenditures in 2008 were $2,176,916 compared to $1,323,395 in 2007.

	2008	2007
P&NG Properties		
Land acquisitions	$608,414	$508,419
Vecta acquisition/Shelton properties	2,729,685	430,000
Geological & seismic	268,739	228,689
Exploration drilling	1,200,535	400,387
Recompletions & workovers	121,232	1,719
Product & gathering equipment	236,185	184,181
	5,164,790	$1,753,395
Capitalized acquisition costs	167,759	-
Site restoration assets	58,066	29,874
Office furniture & equipment	9,454	-
Total capital additions	$5,400,069	$1,783,269

Outstanding Share Information:

	December 31, 2008	December 31, 2007
Common shares outstanding	72,220,009	36,233,488
Warrants outstanding	3,827,449	-
Stock options outstanding	5,760,000	3,635,000
Fully diluted	81,807,458	39,868,488

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

Liquidity and Capital Resources

The Company's operating and investing activities in 2008 were financed by cash flow and the cash proceeds from the sale of Zhoda.

At December 31, 2008, the Company was holding cash and equivalents of $174,298 and had one million dollars available from its 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.

Risk Factors

The Company involvement in the exploration for, and the acquisition, development and production of, oil and natural gas is a speculative business. Exploration for oil and natural gas involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that further commercial quantities of oil and natural gas will be discovered by the Company.

The Company's operations are subject to the risks normally associated with the operation and development of oil and natural gas properties and the drilling of oil and natural gas wells, including encountering unexpected formations or pressures, premature decline of reservoirs, invasion of water into producing formations, blow-outs, cratering, fires and oil spills, all of which could result in personal injury, loss of life and/or damage to the property of the Company and others. Although the Company and/or the operator of its interests maintain insurance in amounts and coverages which it considers adequate, in accordance with customary industry practice, the Company will not be fully insured against all of these risks, nor are all such risks insurable, and, as a result, the liability of the Corporation arising from these risks could have a materially adverse effect upon its financial condition.

Title to oil and natural gas interests is often not susceptible to determination without incurring substantial expense. In accordance with industry practice, the Company will conduct such title reviews in connection with its principal properties as it believes are commensurate with the value of such properties. The actual interest of the Company in certain properties may vary from the Company's records.

The marketability and price of oil and natural gas that may be acquired or discovered by the Company and its partners may be affected by numerous factors beyond the control of the Company. The ability of the Company to market its oil and natural gas may depend upon its ability to acquire space on pipelines. The Company will be subject to market fluctuations in the prices of oil and natural gas, deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities, and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. The Company will also be subject to compliance with federal, provincial and local laws and regulations controlling well abandonments, site restoration and the discharge of materials into the environment or otherwise relating to the protection of the environment. The Company is not aware of any present material liability related to environmental matters. However, the Company may, in the future, be subject to liability for environmental offences of which it is presently unaware.

The extent that the Company is not the operator of its oil and natural gas properties, the Company will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operations. In addition, the success of the Company will be largely dependant upon the performance of its key operators.

It should not be assumed that the discounted future net production revenues contained in the Paddock Lindstrom and Associates Ltd. Reserves Report at December 31, 2008 represent fair market value. The process of estimating oil and gas reserves is complex, requiring significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir. As a result, such estimates are inherently imprecise. Actual future production, oil and gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and gas reserves may vary substantially from those estimated in the report of Paddock Lindstrom and Associates Ltd.

The Company has reviewed the ownership records associated with its properties, but no assurances can be given that material title defects do not exist. If material title defects do exist, it is possible that the Company may lose all or a portion of the interest in the properties to which the defect relates.

The Company's ability to increase its oil and natural gas reserves in the future will depend on not only its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects in the future. No assurance can be given that commercial accumulations of oil and natural gas will be discovered or acquired as a result of the efforts of the Company. To the extent additional financing is not available, lease expiry dates, work commitments, rental payments and option payments may not be satisfied and could result in a loss of property ownership by the Company.

Quarterly Information

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

	Q1	Q2	Q3	Q4	Total
2008					
Financial					
Oil and gas revenue	$393,514	$404,305	$573,200	$451,633	$1,822,652
Royalties	81,954	87,098	139,199	100,241	408,492
Operating costs	85,410	78,262	107,898	108,543	380,111
Cash flow from continuing operations	153,165	143,879	149,084	(17,799)	428,329
$ per weighted share outstanding and fully diluted	$0.004	$0.004	$0.003	($0.001)	$0.008
Net loss from continuing operations	($86,627)	($70,788)	($179,020)	($499,850)	($836,285)
$ per weighted share outstanding and fully diluted	($0.002)	($0.002)	($0.004)	($0.007)	($0.016)
Weighted average shares outstanding (MM)	36.2	36.2	58.0	72.2	50.7
Operating					
Liquids production (Bbl/d)	-	-	8	7	4
Natural gas (Mcf/d)	574	473	712	711	618
Liquids price $/Bbl	$90.60	$115.39	$74.18	$48.93	$65.13
Natural gas price $/Mcf	$8.01	$10.30	$8.12	$7.09	$8.22
2007					
Financial					
Oil and gas revenue	$144,366	$126,432	$113,724	$340,938	$725,460
Royalties	$36,421	$32,167	$,24,842	$66,934	$160,364
Operating costs	$36,224	$30,721	$35,494	$89,328	$191,767
Cash flow from continuing operations	($16,754)	$131,735	($43,518)	($237,273)	($165,810)
$ per weighted share outstanding and fully diluted	($0.000)	$0.004	($0.001)	($0.007)	($0.005)
Net income (loss) from continuing operations	($125,537)	$30,363	($280,523)	($334,621)	($710,318)
$ per weighted share outstanding and fully diluted	($0.003)	$0.001	($0.008)	($0.010)	($0.020)
Weighted average shares outstanding (MM)	36.2	36.2	36.2	36.2	36.2
Operating					
Liquids production (Bbl/d)	-	-	1	2	1
Natural gas production (Mcf/d)	222	204	227	613	317
Natural gas price $/Mcf	$7.80	$7.30	$5.33	$6.16	$6.48
Liquids price $/Bbl	-	-	$73.26	$76.13	$74.71

Five Year Summary

The following table sets forth certain financial information of the Company for the last five years.

	2008	2007	2006	2005	2004
				(Restated)	(Restated)
Income Statement					
Oil and natural gas sales	$1,822,652	$725,460	$8,768	$-	$-
Royalties	(408,492)	(160,364)	(1,556)	-	-
Oil and natural gas net revenue	1,414,160	565,096	7,212	-	-
Operating expenses	(380,111)	(191,767)	(6,310)	-	(294)
General & administrative expenses	(627,973)	(583,551)	(762,312)	(727,083)	(685,918)
Stock-based compensation	(128,387)	(122,937)	(210,520)	(166,408)	(38,149)
Foreign exchange gains		-	-	-	(481)
Depletion and other provisions	(1,136,227)	(438,027)	(15,285)	(4,556)	(3,788)
Other Items	22,253	60,868	16,801	18,767	25,695
Net loss from continuing operations	($836,285)	($710,318)	($970,414)	($879,280)	($702,935)
Discontinued operations	23,034	($3,381,942)	$1,121,159	$1,685,694	$1,459,769
Net (loss) income	($813,251)	($4,092,260)	$150,745	$806,414	$756,834
Net (loss) income from continuing operations $ per weighted share outstanding and fully diluted	($0.016)	($0.020)	($0.028)	($0.026)	($0.022)
Net (loss) income $ per weighted share outstanding and fully diluted	($0.016)	($0.113)	$0.004	$0.024	$0.023
Balance Sheet					
Current assets of continuing operations	$575,356	$1,281,656	$398,724	$499,873	$1,136,759
Properties and equipment of continuing operations – net	$6,173,604	1,907,645	562,404	20,389	24,945
Assets of discontinued operations	12,758	316,661	9,053,539	7,667,638	5,025,637
Identifiable assets	$6,761,718	$3,505,962	$10,014,667	$8,187,900	$6,987,341
Current liabilities of continuing operations	1,245,009	$149,703	$154,196	$141,927	$112,011
Asset retirement obligations of continuing operations	92,570	32,736	2,862	-	-
Liabilities of discontinued operations	1,233	45,221	1,260,600	915,634	540,900
Future tax liability	364,938	-	-	-	-
Equity	5,057,923	3,278,302	8,597,009	7,130,339	6,334,430
Total liabilities and equity	$6,761,718	$3,505,962	$10,014,667	$8,187,900	$6,987,341
Weighted Average Shares Outstanding-December 31					
Outstanding	50,740,846	36,233,488	34,067,152	32,231,336	31,125,607
Fully diluted	50,740,846	36,233,488	34,209,763	33,383,069	32,352,054
Production Data:					
Liquids (Bbls)	1,398	282	-	-	-
Natural gas(Mcf)	226,012	115,868	1,363	-	-
Produced daily average (Boes/day)	107	54	4	-	-
Natural gas price $/Mcf -	$8.22	$6.48	$6.43	$-	$-
Liquid price $/Mcf -	$65.13	$74.71	$-	$-	$-

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.

Oil and Gas Reserves

The independent petroleum engineering firm of Paddock Lindstrom and Associates Ltd. evaluated and reported on Kroes' oil and gas reserves in 2008.

The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. The Company expects that its estimates of reserves will change with updated information from the results of future drilling, testing, or production levels. Such revisions could be upwards or downwards. Reserve estimates have a material impact on the depletion and depreciation, asset retirement obligations, and impairment costs, all of which could possibly have a material impact on consolidated net earnings.

Capitalized costs and estimated future expenditures to develop proved reserves, including abandonment costs, are depleted based on the proportion of estimated proved oil and natural gas reserves during the year compared to total proved reserves. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If it is determined that properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized.

Impairment

In applying the full cost method of accounting, Kroes periodically calculates a ceiling or limitation on the amount that property and equipment may be carried for on the balance sheet. An impairment exists if the undiscounted future net cash flows from proved reserves at future commodity prices plus the cost of undeveloped properties is less than the carrying value of the capitalized costs. As at December 31, 2008, the ceiling amount calculated was $1,251,618 in excess of the carrying value of the costs capitalized.

If an impairment is found to exist, the impaired properties are written down to their fair value. The fair value of the assets is calculated based on future net cash flows from proved plus probable reserves, discounted at a risk free interest rate using future commodity price estimates plus the cost of undeveloped properties. An impairment may result in a material loss for a particular period; however, future depletion and depreciation expense would be reduced as a result.

Assumptions about reserves and future prices are required to calculate future net cash flows. The assumptions made to estimate reserves have been discussed above. There is significant uncertainty regarding forecasting future commodity prices due to volatile economic and political circumstances. Future prices are derived from a consensus of price forecasts among recognized reserve evaluators. Estimates of future cash flows assume a long term price forecast and current operating costs per boe plus an inflation factor.

Asset Retirement Obligations

The Company recognizes the fair value of estimated asset retirement obligations on the balance sheet when a reasonable estimate of fair value can be made. Asset retirement obligations include those legal obligations where the Company will be required to retire tangible long term assets such as well sites, pipelines, and facilities. The asset retirement cost, equal to the initially estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long term assets. Increases in the asset retirement obligations resulting from the passage of time are recorded as accretion of asset retirement obligations in the statement of earnings. Amounts recorded for asset retirement obligations are subject to uncertainty associated with the method, timing, and extent of future retirement activities. Actual payments to settle the obligations may differ from estimated amounts.

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, 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 were significant choices exist between alternative accounting treatments. The Company expects the transition to IFRS to have an impact on the financial statements.

Changes in Accounting Policies

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) standards; Section 3862 Financial Instruments – Disclosures and Section 3863 Financial Instruments – Presentation, which replaced Section 3861 Financial Instruments – Disclosure and Presentation. The new standard increased the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. Refer to Note 12/13 in the financial statements for addition disclosures.

Effective January 1, 2008, the Company adopted CICA Section 1535, Capital Disclosures, which required disclosure of the Company’s objectives, policies and processes for managing capital. In addition, disclosures will include whether companies have complied with externally imposed capital requirements. Refer to Note 14 in the financial statements for additional disclosures.

On January 1, 2008, the Company adopted the CICA Section 1400, General Standards of Financial Statement Presentation. This new Section requires assessing an entity's ability to continue as a going concern and disclosing such if any uncertainty exists.

Financial Instruments

The financial instrument standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives.

The adoption of the financial instruments standard has been made in accordance with its transitional provisions.

Outlook and Guidance for 2009

Kroes is currently revisiting 2009 plans in light of the global economic downturn, continued decline in commodity prices, particularly natural gas prices, and our intention to limit capital spending to funds generated from operations. In response to current commodity prices, we have delayed certain 2009 expenditures and expect our 2009 capital program will be less than initially planned. Kroes will be monitoring commodity prices and its capital commitments during the year.