

KROES ENERGY INC.

REPORT TO THE SHAREHOLDERS REGARDING RESULTS AND ACTIVITIES IN 2008

Personal to the shareholders

It is my pleasure to discuss with you my thoughts about the oil and gas business and Kroes in particular. By now you have heard much about the current environment in the oil and gas sector, particularly for the Canadian Juniors. We believe the market will be challenged for natural gas for a good portion of 2009 and therefore we have curtailed our gas activity both for this reason and the fact our operators (Montane and Crew) have taken the same approach. We have been through these cycles before and believe there are great opportunities in each downturn. I discuss this in my closing remarks in the last paragraph. We are working on several of these opportunities right now. These vary from outright acquisition of assets to potential mergers with other companies. We also want to address our cash reserves in a way that positions us to take advantage of attractive situations that may come our way. We know we will need additional funds in the near future so we are busy looking at our options. One potential option is to look at cross border projects with our single largest shareholder, Vecta Oil & Gas Ltd. We are currently discussing two such projects and are encouraged. Another possibility is mezzanine debt, and we have such a lender/partner that we are talking to and one who is interested in participating with us in acquiring properties or companies that are primarily oil producers with cash flow. Yet another potential is pursuing financial institutions that provide project financing of various types, possibly including cross border projects. We are loath to go to the equity markets at this time due to dilution, assuming we could be successful.

Results for 2008

Cash flow from operations in 2008 was \$428,328, a significant improvement from the deficit in 2007 of \$165,810. Reserves were increased from 85.4 Mboe to 178.9 Mboe in 2008 from drilling and acquisition. Production averaged 107 boe per day compared with 54 boe per day produced in 2007.

Capital expenditures for the year totaled \$2,176,916 compared with \$1,323,395 spent in 2007. The Company spent \$1,551,107 on its exploration and development program for shallow gas and \$611,529 on its Belly River gas play at Brewster and \$14,280 on other assets.

Vecta Acquisition

We completed the acquisition of Vecta Energy Corporation on July 30, 2008. This acquisition gave Kroes access to relatively low risk but high reward prospects in the Brewster area of the Deep Basin. Two wells have been drilled (discussed below) that prove this concept. We have numerous other 3D prospects inventoried in this area along with Crew, our operator. These prospects will be drilled as the gas market rebounds.

The acquisition also gives Kroes an exploration capability second to none with its relationship with Vecta Oil & Gas. Vecta has opened a Denver office with several world class geoscientists and Kroes unique contractual arrangement with Vecta allows Kroes a non cash method to develop its prospects without incurring capital outlays.

Oil and Gas Reserves

The Company's share of oil and gas reserves was evaluated by Paddock Lindstrom and Associates Ltd. at December 31, 2008 and the details of this evaluation are provided in the Company's Information Circular dated April 23, 2008.

Oil and Gas Drilling and Completion Activity

Kroes drilled 8 wells with Montane Resources Ltd. under its Joint Venture Agreement with Montane as operator. Crew Resources, the operator in the Brewster area, drilled two wells to the Belly River formation resulting in a producing well at 15-11-43-13 W5 and a probable producer at 8-22-43-13 W5. The 15-11 well has produced 51,167 boe (307,000 mmcf of gas) as of 12/31/08 and is currently producing about 183 boed (1.1 mmcf/d) to the 100%. The 8-22 well was drilled and cased and is awaiting completion, pipeline construction and connection. The operator, Crew, has informed us they plan to complete the well and the pipeline in Q4, 2009. Crew also is planning to reenter and undertake a completion attempt in the Viking in a previously drilled well in 11-22-43-13 W5 at the same time as the 8-22 completion. Several other Belly River tests based on 3D seismic have been identified and will be drilled subject to our budget and gas prices. Kroes is contemplating activity in Q4 in the area surrounding its shut in well at 12-15-42-13 W5. Several potential gas producing zones have been identified behind pipe. Kroes is evaluating economics with respect to this play.

Corporate

The company initiated a line of credit with the National Bank of Canada for a total of \$1 million. The line was unused as of 12/31/08. Kroes continues to review merger and/or acquisition potential as management believes the current environment is conducive to this approach. Management's goal is to grow the company through drilling and strategic ventures, acquisitions or mergers. Management appreciates the understanding by its shareholders of the difficult circumstances Canadian Juniors are experiencing. We believe, however, this business climate offers opportunities not seen in recent years and we are working diligently to find the right opportunities for Kroes.

On a somber note, we are saddened by the loss of Ed Southern on April 17, 2009. Mr. Southern was a significant shareholder and former Board Member and Executive Vice President of Kroes.

Tom Coffman, President & CEO
April 23, 2008