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**KROES ENERGY INC.
UNAUDITED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED
JUNE 30, 2008**

**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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis ("MD&A") of the operating and financial results of Kroes Energy Inc. ("Kroes" or the "Company" or the "Corporation") for the quarter ended June 30, 2008. The information is provided as of August 27, 2008. On August 1, 2007 the Company closed the sale of its wholly owned subsidiary Zhoda 2001 Corporation which held a 45% interest in a Ukrainian oil field rehabilitation project and on January 12, 2008 sold its 25% interest in a small oilfield in Trinidad. As a result the financial statements are prepared on the basis of those assets and operations being classified as discontinued operations. The second quarter results have been compared to the same period in 2007 with both periods taking into account the discontinued operations of the Ukraine and Trinidad assets. This discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2007, together with the accompanying notes, and the December 31, 2007 MD&A and Annual Information Form. These documents and additional information about Kroes are available on SEDAR at www.sedar.com.

Forward Looking Statements

This discussion and analysis contains forward-looking statements relating to future events or future performance. In some cases forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", and similar expressions. These statements represent management's expectations or beliefs concerning, among other things, future operating results and various components thereof or the economic performance of Kroes. The projections, estimates and beliefs contained in such forward-looking statements necessarily involve known and unknown risks and uncertainties, including the business risks discussed in the MD&A and Annual Information Form as at and for the years ended December 31, 2007 and 2006, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted.

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 measurements based on Generally Accepted Accounting Principles in Canada ("GAAP"), but are financial terms commonly used in the oil and gas industry. Cash flow from operations represents cash generated from operating activities before changes in non-cash working capital, site restoration and reclamation expenditures, and deferred charges. The Company considers this a key measure as it demonstrates its ability to generate the funds necessary for future growth. Kroes' determination of cash flow from operations may not be comparable with the calculation of similar measures for other entities.

Barrel of oil equivalent (BOE) volumes are reported at 6:1 with 6 MCF = 1 BOE. BOE's may be misleading, particularly if used in isolation. A BOE conversion ratio of 6MCF:1Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Mcf equivalent (Mcf) volumes are reported at 1 barrel of liquids = 6 Mcf of natural gas. Mcf's may be misleading, particularly if used in isolation, but is a non-GAAP measure that is commonly used by oil and gas companies to illustrate the contribution of each Mcf produced, particularly when natural gas is the dominant product. Netback per Mcf is calculated by dividing the revenue less royalties and operating costs by the gross sales volume of natural gas and liquids during the period. The 1 barrel to 6 Mcf conversion ratio is based on an energy equivalency ratio primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Business of the Company

Kroes Energy Inc. is a junior oil and gas company headquartered in Calgary, Alberta, Canada and is listed on the TSX Venture Exchange. As described below, the Company sold its interest in a Ukrainian joint venture on August 1, 2007 and its interest in a small oilfield in Trinidad in January 2008. In the past two years the Company continued to expand its exploration program for shallow gas in western Canada. As of the date of this report, it has drilled or acquired 19 wells in Alberta and has 18 wells capable of production.

Corporate Developments

On July 30, 2008 the Corporation completed its acquisition of Vecta Energy Corporation ("Vecta") and has had taken up and paid for all of the Vecta shares and an outstanding Debenture that were tendered to the take-over bid by Kroes dated May 29, 2008. Kroes has issued 29,936,439 shares, 5,147,881 Kroes Class 1 Performance Warrants and 5,312,500 Kroes Class 2 Performance Warrants in payment for approximately 97% of Vecta's issued and outstanding shares and the Vecta Debenture. The balance of the Vecta shares will be compulsorily acquired under the provisions of the Alberta *Business Corporations Act*. This process is expected to be completed in early September. The Corporation intends to subsequently complete an amalgamation with Vecta.

As per its agreement with Vecta, the Kroes Board of Directors and management team has been restructured effective July 30, 2008. The Board accepted resignations from Directors David Powell, James Werbicki and Edward Southern. Fred Callaway also tendered his resignation as President and CEO of Kroes and Edward Southern resigned from his position as Executive Vice-President. The Corporation wishes to thank these individuals for their significant contributions to the Corporation over the past several years.

Thomas Coffman, Allen Gilmer, Charles Selby and Kenneth West have been appointed to the Kroes Board of Directors. Thomas Coffman holds a B.B.A. in accounting and was previously Chairman and CEO of Vecta. Mr. Coffman has more than 35 years of experience with independent oil and gas producers in Texas, including growing a company from start-up to production of over 10,000 BOE/D.

Allen Gilmer is the co-founder, Chairman of the Board and Chief Executive Officer of Drilling Info, Inc. of Austin, Texas, a privately held oil and gas upstream intermediary and oil and gas trade and investment enabler, from 1999 to present. Mr. Gilmer was a director of Vecta from 2005 to the present.

Charles Selby, B.Sc.(Hons), P.Eng, LL.B., previously held the position of Director and Chief Financial Officer of Vecta in addition to his position as Vice-President and Corporate Secretary of Pengrowth Corporation. Mr. Selby worked as a petroleum engineer in the energy sector prior to practicing law for ten years for two major Calgary based law firms. He presently serves on the boards of several public and private companies and has extensive experience in securities and international oil and gas financial transactions.

Kenneth West has been retired since December 2005 and prior thereto was Vice President Exploration of Crestar Energy Inc., a publicly traded oil and gas exploration and development company. Mr. West was a director of Vecta from 2005 to the present.

Fred Callaway, C. James Cummings, Stewart Gossen and Darrell Zakreski continue as Directors of Kroes.

The Board of Directors has appointed the following management team:

Executive Chairman	–	Fred Callaway
President and CEO	–	Thomas Coffman
V.P. Finance and CFO	–	Stewart Gossen
V.P. Business Development	–	Charles Selby

Further management appointments are expected over the next few months.

FINANCIAL AND OPERATING

Six Months 2008

Kroes incurred a net loss from continuing operations of \$157,415 for the first six months of 2008, compared to a loss of \$312,290 for the same period in 2007. Cash flow from operations for the six month period increased to \$297,045 from a negative \$102,135 in the comparable period 2007 reflecting the continuing success of the western Canadian shallow gas program.

Second Quarter 2008

Net loss from continuing operations for the three months ended June 30, 2008 was \$70,788 compared to a net loss of \$196,065 in the same period in 2007. Cash flow from operations increased to \$143,879 in the second quarter compared to a negative \$94,693 in the second quarter of 2007.

Western Canada Operations

Production for the first six months of 2008 averaged 88 boe compared to 36 boe for the same period in 2007. Kroes participated in drilling three wells during June with a 12.5% working interest. One well has been producing since mid July at 532 mcf per day (11 boe/d net to Kroes) and a second well is on production at a restricted rate of 248 mcf per day (5 boe/d net to Kroes) while cleanup from a fracture stimulation is in process. The third well was completed and tested for an expected production rate of 639 mcf per day (13 boe/d net to Kroes) and is scheduled to be onstream the last week in August. In total these three wells will increase Kroes net production by 177 mcf per day (29 boe/d). Kroes now has interests in 14 shallow gas wells that are on production. In addition the Company has interests in three shut in Viking gas wells that are expected to be connected in the fourth quarter after compression and pipeline tie-ins are installed.

Kroes is also currently participating in another four well drilling program (Kroes share 0.875 wells) commencing on August 20, 2008. If successful, initial production would be expected in October or November 2008.

With respect to the recently acquired Vecta lands, the Company anticipates a very active program over the next few months in the Brewster area:

15-11-43-13 W5M – This Crew-operated well began producing in mid-July and continues to flow at an average gross rate of 2.5 mmcf/day (55 boe/d net to Kroes) plus some associated liquids from the Belly River formation into the nearby Encana gathering system. Kroes will have a detailed report soon regarding the liquid content as to condensate and load frac oil as the well continues to clean up. Kroes has a 13.125% working interest in this well.

08-22-43-13 W5M – This well will be spudded around the end of August or early September. Kroes has a 7.5% working interest in this Crew-operated well which is targets the Belly River formation and is on trend with the 15-11 well and another industry producer.

07-16-43-13 W5M – This previously drilled well will be re-entered for completion in the Belly River zone. Crew, the operator, expects this operation to commence in early September. Kroes has a 13.125% working interest in this re-entry.

12-15-43-12 W5M – Kroes has received fracture stimulation proposals from Schlumberger and Gasfrac Services for the Rock Creek, Nordegg and Mannville zones in this well. Buffalo, the operator, is presently studying pipeline access and connection costs in order to assess the economics of completing this well. Kroes has a 47.5% working interest in this well.

There continues to be brisk activity in the Brewster area from a number of operators, including Encana, Crew, Baytex and others, primarily targeting the Belly River. Kroes expects to participate in several other drilling projects, in addition to those listed above, over the next 6- 12 months.

Wells Drilled

	Three Months Ended June 30				Six Months Ended June 30			
	2008		2007		2008		2007	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Net Wells Drilled								
Canada	3	0.38	2	0.50	4	0.52	3	0.75

Sale of Zhoda 2001 Corporation

On August 1, 2007 Kroes closed the sale of its wholly owned subsidiary, Zhoda 2001 Corporation (“Zhoda”) to Shelton Canada Corporation (“Shelton”). Zhoda owns a 45% interest in the Kashtan Petroleum Ltd. oil field rehabilitation joint venture in Ukraine. Consideration from the sale included 6,997,507 shares of Shelton, \$1 million cash and Shelton’s Canadian oil and gas properties located in Flat Rock, northeastern British Columbia and Alexander, in west central Alberta. The Shelton shares were distributed to Kroes’ shareholders of record on August 17, 2007 and at that date, the distribution represented \$2 million of value.

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 shallow production from the block averaged 5 barrels of oil per day and operating cash flow amounted to approximately \$15,000. The sale proceeds have been dedicated to Kroes’ exploration and development program in western Canada.

The six month results from the 45% interest in the Ukrainian joint venture and the Trinidad production have been reflected in Kroes financial statements at June 30, 2008 as discontinued operations. The financial results for the Canadian operations will be reflected in a normal manner as continuing operations.

Revenue

Gross revenue from continuing operations for the first six months of 2008 totalled \$797,819, a near three-fold increase from the \$270,798 generated in the same period last year. The western Canada shallow gas program and a small amount of production from the Canadian properties acquired from Shelton Canada accounted for this increase in revenue. Daily natural gas production volumes averaged 523 mcf per day for the six months compared with 213 mcf per day for the same period in 2007. Natural gas prices averaged \$9.03 per mcf in 2008 compared with \$7.56 in 2007.

Second quarter continuing operations provided 473 mcf of natural gas per day and resulted in \$404,305 in revenue. This compares with 204 mcf of natural gas per day and \$126,432 of revenue in 2007. Prices received in Canada for natural gas for the quarter ended June 30, 2008 averaged \$10.30 per mcf as compared to \$7.30 per mcf in the comparable period in 2007.

The table below sets out the relevant statistics for Kroes' oil and gas production from continued operations.

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Revenue				
Liquids	\$2,769	-	\$5,306	-
Natural gas	401,536	126,432	792,513	\$270,798
	\$404,305	126,432	\$797,819	\$270,798
Royalties				
Liquids	\$554	-	\$910	-
Natural gas	86,544	32,167	168,142	68,588
	\$87,098	\$32,167	\$169,052	\$68,588
Liquids Production Volumes				
Barrels	24	-	52	-
Bbls per day	-	-	-	-
Natural Gas Production Volumes				
Mcf	43,066	18,524	95,256	38,539
Mcf per day	473	204	523	213
Boe equivalent Daily Production Volumes (6 mcf to 1 barrel)	79	34	88	36
Prices per Barrel				
Liquids	\$115.39	-	\$102.04	-
Prices per Mcf				
Natural Gas	\$10.30	\$7.30	\$9.03	\$7.56

Royalties/Production Taxes

Royalty payments arising from continuing operations in the six months of 2008 were \$169,052 as compared to \$68,588 in the same period of 2007, an average rate of 21% of gross revenue.

Second quarter royalties were \$87,098 compared with \$32,167 in the same period in 2007.

Operating Expenses

For the six months of 2008, production costs increased to \$163,671 from \$66,945 in the same period of 2007. The overall increase in operating costs reflects the three-fold increase in production in western Canada. Transportation costs represent approximately 18% of operating expenses. In the second quarter 2008, total production costs from continuing operations were \$78,262 compared with \$30,722 in the same period last year.

General and Administrative

General and administrative expenses from continuing operations for the six months were \$187,675 compared to \$248,519 in 2007. A reduction in consulting and audit fees accounted for the majority of the decrease in general and administrative expenses during the period.

The table below provides a summary of general and administrative expenses.

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Management, administration and consulting fees	\$57,226	\$90,675	\$101,150	\$136,050
Legal, accounting and audit	10,267	30,961	12,155	31,471
Trustee, TSX listing fees & shareholders communications	12,777	23,442	26,470	32,455
Office Rent	14,986	12,775	33,529	30,787
Office expenses and other	7,465	8,976	14,371	17,756
	\$102,721	\$166,829	\$187,675	\$248,519

Stock Based Compensation

In the six months of 2008, stock based compensation expenses of \$50,489 were charged against earnings. This compares with \$50,877 charged to earnings in the six months of 2007. Under policies mandated by the Security and Exchange Commissions, 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

On a year-to-date basis depletion and depreciation costs increased to \$403,971 from \$159,278 in the six months of 2007. In the second quarter of 2008, depletion and depreciation from continuing operations increased to \$189,826 from \$75,187 in 2007, due to increased production and the ongoing capital spending on wells and facilities in western Canada.

Capital Expenditures

The capital expenditures for the period are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Canada				
Land acquisition	\$2,722	\$28,204	\$68,762	\$131,999
Seismic	4,985	11,882	78,739	78,159
Exploration drilling	235,688	59,939	246,310	195,202
Production equipment and facilities	47,670	24,602	51,558	41,369
Capitalized acquisition costs	140,590	-	140,590	-
Office equipment	-	-	3,706	-
	<u>\$431,655</u>	<u>\$124,627</u>	<u>\$589,665</u>	<u>\$446,729</u>

Netbacks

Netback per mcf is calculated by dividing revenue, royalties and operating expenses by the gross sales volumes during the period.

The consolidated operating netback from continuing operations of the Company in the six months of 2008 averaged \$5.27 per mcf compared with \$3.77 in 2007. The breakdown is shown in the following table.

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Canada (Per Mcf Equivalent)				
Revenue	\$10.31	\$7.30	\$9.05	\$7.56
Royalties	(2.22)	(1.86)	(1.92)	(1.92)
Operating	<u>(2.00)</u>	<u>(1.77)</u>	<u>(1.86)</u>	<u>(1.87)</u>
Netback	<u>\$6.09</u>	<u>\$3.67</u>	<u>\$5.27</u>	<u>\$3.77</u>

Financial, Liquidity and Solvency

At June 30, 2008 the Company had working capital of \$1,133,581 compared to \$1,182,000 at December 31, 2007.

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

Authorized:	An unlimited number of common and preferred shares without par value
Issued:	36,233,488 common shares

Stock Options Outstanding

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 31, 2012, exercisable at \$0.155
<u>1,660,000</u> expiring August 20, 2012, exercisable at \$0.10
<u>2,960,000</u>

Quarterly Information

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

	2008		2007				2006	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial								
Oil and gas gross revenue (\$000's)	\$404	\$394	\$341	\$114	\$126	\$144	\$7	\$2
Royalties (\$000's)	87	82	67	25	32	36	1	.4
Cash flow from operations (\$000's)	\$144	\$153	(\$237)	(\$44)	(\$95)	(\$17)	(\$215)	(\$149)
Per basic share	\$0.004	\$0.004	(\$0.007)	(\$0.001)	(\$0.003)	(\$0.000)	(\$0.006)	(\$0.004)
Per fully diluted share	\$0.004	\$0.004	(\$0.007)	(\$0.001)	(\$0.003)	(\$0.000)	(\$0.006)	(\$0.004)
Net income (loss) from continuing operations (\$000)	(\$71)	(\$87)	(\$335)	(\$281)	(\$196)	(\$126)	(\$281)	(\$203)
Per basic share	(\$0.002)	(\$0.002)	(\$0.010)	(\$0.008)	(\$0.005)	(\$0.003)	(\$0.008)	(\$0.005)
Per fully diluted share	(\$0.002)	(\$0.002)	(\$0.010)	(\$0.008)	(\$0.005)	(\$0.003)	(\$0.008)	(\$0.005)
Weighted shares outstanding (millions)								
Basic	36.2	36.2	36.2	36.2	36.2	36.2	36.1	35.7
Fully diluted	36.2	36.2	36.2	36.2	36.2	36.2	36.1	36.0
Operating								
Liquids production (Bbl/d)	-	-	2	1	-	-	-	-
Natural gas production (Mcf/d)	473	580	613	227	204	222	10	4
Liquids price \$/bbl	\$115.39	\$90.60	\$76.13	\$73.26	-	-	-	-
Natural gas price \$/Mcf	\$10.30	\$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 June 30, 2008, Kroes' Chief Executive Officer and 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 comprehensive discussion of Kroes' significant accounting policies and estimates may be found in Note 2 to the consolidated financial statements.

Changes in Accounting Policies

The Company has assessed and adopted the following new accounting standards:

- As of January 1, 2008, the Company has adopted 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 has adopted 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 has adopted 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 has adopted 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 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 Other Comprehensive Income (“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 Accumulated Other Comprehensive Income (“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.

Future Accounting Changes

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.

On behalf of the Board,

“Fred Callaway”

Fred Callaway, Executive Chairman
August 28, 2008

CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

(unaudited)

	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Revenues				
Oil and natural gas sales	\$404,305	\$126,432	\$797,819	\$270,798
Royalties	(87,098)	(32,167)	(169,052)	(68,588)
	<u>317,207</u>	<u>94,265</u>	<u>628,767</u>	<u>202,210</u>
Expenses				
Operating	64,631	25,950	132,981	57,190
Transportation	13,631	4,772	30,690	9,755
General and administrative	102,721	166,829	187,675	248,519
Stock Based compensation	24,841	26,185	50,489	50,877
Depletion and depreciation	189,826	75,187	403,971	159,278
	<u>395,650</u>	<u>298,923</u>	<u>805,806</u>	<u>525,619</u>
Loss before other items and income taxes	(78,443)	(204,658)	(177,039)	(323,409)
Other items				
Interest and other items	7,655	8,593	19,624	11,119
Loss before income taxes	<u>(70,788)</u>	<u>(196,065)</u>	<u>(157,415)</u>	<u>(312,290)</u>
Income taxes	-	-	-	-
Loss before discontinued operations	<u>(70,788)</u>	<u>(196,065)</u>	<u>(157,415)</u>	<u>(312,290)</u>
Net earnings(loss) from discontinued operations (Note 9)	-	169,576	22,808	382,372
Net earnings(loss) for period	<u>(\$70,788)</u>	<u>(\$26,489)</u>	<u>(\$134,607)</u>	<u>\$70,082</u>
Retained earnings – Beginning of period	(4,380,473)	1,831,479	(4,316,654)	1,734,908
Retained earnings(deficit) – End of period	<u>(\$4,451,261)</u>	<u>\$1,804,990</u>	<u>(\$4,451,261)</u>	<u>\$1,804,990</u>
Net income(loss) attributable per common share before discontinued operations	<u>(\$0.002)</u>	<u>(\$0.006)</u>	<u>(\$0.004)</u>	<u>(\$0.009)</u>
Net income(loss) attributable per common share	<u>(\$0.002)</u>	<u>(\$0.001)</u>	<u>(\$0.004)</u>	<u>\$0.002</u>
Weighted average number of shares outstanding	<u>36,233,488</u>	<u>36,233,488</u>	<u>36,233,488</u>	<u>36,233,488</u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

(unaudited)

	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Net (loss) earnings	(\$70,788)	(\$26,489)	(\$134,607)	\$70,082
Other Comprehensive loss				
Foreign currency translation adjustment	-	(551,898)	-	(612,175)
Other Comprehensive loss	<u>(\$70,788)</u>	<u>(\$578,387)</u>	<u>(\$134,607)</u>	<u>(\$542,093)</u>
Accumulated Other Comprehensive Income (Loss)				
Beginning of period	\$-	(\$823,647)	\$-	(\$763,370)
Other comprehensive loss				
Foreign currency translation adjustment	<u>-</u>	<u>(551,898)</u>	<u>-</u>	<u>(612,175)</u>
Accumulated Other Comprehensive Income (Loss)				
End of period	<u>\$-</u>	<u>(\$1,375,545)</u>	<u>\$-</u>	<u>(\$1,375,545)</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS*(unaudited)*

	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Operating Activities				
Net loss for period	(\$70,788)	(\$196,065)	(\$157,415)	(\$312,290)
Items not affecting cash				
Stock option compensation	24,841	26,185	50,489	50,877
Depletion, depreciation and amortization	189,826	75,187	403,971	159,278
Cash flow from operations	143,879	(94,693)	297,045	(102,135)
Change in non-cash working capital	(124,261)	(49,792)	(299,866)	(246,224)
	19,618	(144,485)	(2,821)	(348,359)
Investing Activities				
Additions to capital assets	(431,655)	(124,627)	(589,665)	(446,729)
	(431,655)	(124,627)	(589,665)	(446,729)
Increase (decrease) in cash	(412,037)	(269,112)	(592,486)	(795,088)
Net cash flows of discontinued operations(Note 9)	-	246,634	282,948	\$1,389,415
Cash and short term investments, beginning of period	\$1,254,758	\$966,504	\$1,152,259	\$349,699
Cash and short term investments, end of period	\$842,721	\$944,026	\$842,721	\$944,026

CONSOLIDATED BALANCE SHEETS*Unaudited*

	June 30, 2008	December 31, 2007
ASSETS		
Current		
Cash and cash equivalents	\$842,721	\$1,152,259
Receivables	458,087	119,844
Prepays and deposits	5,531	9,553
Assets of discontinued operations (Note 9)	17,426	72,730
	<u>1,323,765</u>	<u>1,354,386</u>
Capital assets		
Petroleum and natural gas properties and equipment – net (Note 3)	2,094,087	1,907,645
Assets of discontinued operations (Note 9)	-	243,931
	<u>\$3,417,852</u>	<u>\$3,505,962</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Payables and accruals	\$184,057	\$149,703
Liabilities of discontinued operations (Note 9)	6,127	22,683
	<u>190,184</u>	<u>172,386</u>
Asset retirement obligations (Note 4)	33,484	32,736
Liabilities of discontinued operations (Note 9)	-	22,538
Shareholders' equity		
Capital stock (Note 5)	6,660,868	6,660,868
Contributed surplus (Note 7)	984,577	934,088
Retained earnings	(4,451,261)	(4,316,654)
	<u>\$3,417,852</u>	<u>\$3,505,962</u>

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 2nd quarter ended June 30, 2008, the Company has a net loss from continuing operations of \$157,415 (\$312,290 for the period ended June 30, 2007) and cash flow from operating activities of \$297,045 (\$102,135 loss for the period ended June 30, 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. 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.

These consolidated interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Certain information and disclosure normally required to be included in notes to annual consolidated financial statements have been condensed or omitted. The consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company's annual report for the year ended December 31, 2007. The consolidated interim financial statements have been prepared following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended December 31, 2007 except as disclosed in below.

Changes in accounting policies and procedures

On January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1400, "General Standards of Financial Statement Presentation", Handbook Section 3862, Financial Instruments – Disclosures", Handbook Section 3863, "Financial Instruments – Presentation", and Handbook Section 1535, "Capital Disclosures".

The adoption of these standards has had no significant impact on the Company's consolidated financial statements. The effects of the implementation of the new standards are discussed below.

a) General Standards of Financial Statement Presentation

The new standard requires assessing an entities ability to continue as a going concern and disclosing such if any uncertainty exists.

b) Financial Instruments Disclosure and presentation

The new standards require increased disclosure of financial instruments with particular emphasis on the risks associated with recognized and unrecognized financial instruments and how those risks are managed by the Company as disclosed in Note 10.

c) Capital disclosures

The new standard requires disclosure about the Company's objectives, policies and process for managing its capital structure as disclosed in Note 11.

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

	June 30, 2008		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Exploration and developments costs	\$2,416,269	\$715,685	\$1,700,584
Production equipment and processing facilities	\$333,466	\$119,039	\$214,427
Office equipment	\$41,324	\$23,323	\$18,001
Capitalized acquisition costs	\$140,590	-	\$140,590
Retirement costs of long lived assets	\$31,210	\$10,725	\$20,485
	<u>\$2,962,859</u>	<u>\$868,772</u>	<u>\$2,094,087</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	
	June 30, 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	748	925
Asset retirement obligations, end of period	<u>\$33,484</u>	<u>\$32,736</u>

5. Share Capital

	June 30, 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>

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 June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Basic	36,233,488	36,233,488	36,233,488	36,233,488
Fully Diluted	<u>36,233,488</u>	<u>36,233,488</u>	<u>36,233,488</u>	<u>36,233,488</u>

7. Contributed Surplus

	Period Ending	
	June 30, 2008	December 31, 2007
Balance, beginning of year	\$934,088	\$679,167
Value attributed to stock options granted	\$50,489	\$122,937
Transfer of carrying value of warrants expired	-	\$131,984
Balance, end of year	<u>\$984,577</u>	<u>\$934,088</u>

The Company has a Stock Option Plan for Directors, Officers and Consultants. As of June 30, 2008 there were 2,960,000 options granted with an exercise price of \$0.33, \$0.56, \$0.345, \$0.155 and \$0.10 per share exercisable at various dates to August 21, 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:

8. Stock-Based Compensation Plans

	June 30, 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	\$0.010
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 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. The assumptions for the periods under discussion are listed below.

	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 \$429,000.

On January 12, 2008 Kroes closed the sale of its 25% interest in the Icacos Block, Cedros Peninsula, and Trinidad for US\$250,000.

The discontinued operation of Zhoda and Trinidad are as follows:

	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Revenues – oil & gas	\$ -	\$948,308	\$ -	\$2,549,654
Less: Royalties	-	(571,266)	-	(1,325,052)
Operating costs	-	(81,398)	-	(429,081)
DD & A	-	(122,377)	-	(251,874)
G & A	-	(69,216)	(825)	(117,583)
Other	-	(28,697)	23,633	(11,649)
Income taxes	-	94,222	-	(32,043)
Net earnings(loss) – discontinued operations	-	169,576	22,808	382,372
Net earnings(loss) of discontinued operations	\$ -	\$169,576	\$22,808	\$382,372

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

	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Net earnings(loss) – discontinued operations	\$ -	\$169,576	\$22,808	\$382,372
Net earnings(loss) of discontinued operations per common share Basic & diluted (Note 6)	\$ -	\$0.005	\$0.001	\$0.011

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

Period Ending June 30, 2008		
	Trinidad	Total
Cash and cash equivalents	\$16,832	\$16,832
Receivables and others	\$594	\$594
	<u>\$17,426</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>\$11,299</u>

Period Ending December 31, 2007		
	Trinidad	Total
Cash and cash equivalents	\$5,091	\$5,091
Receivables and others	\$67,639	\$67,639
	<u>\$72,730</u>	<u>\$72,730</u>
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>\$271,440</u>

10. Financial instruments and risk management

The Company has exposure to credit risk, liquidity risk and market risk.

Credit risk is the risk of financial loss to the Company if a customer or counterparty fails to meet its contractual obligations. At June 30, 2008, the Company's accounts receivable consists of \$458,087 from joint venture partners and other trade receivables. The Company does not have an allowance for doubtful accounts at June 30, 2008. The Company has not historically experienced any collection issues with its joint interest partner. The receivables are from participants in the petroleum and natural gas sector, and the collection of the outstanding balances is dependant on a variety of economic factors.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company updates its forecasts quarterly to ensure it has sufficient liquidity to meet its obligations as they come due.

Market risk is the risk that market prices such as commodity prices, interest rates and foreign exchange rates will affect the Company's income and funds from operations. A change of \$0.25 per mcf in the price of natural gas would change income before taxes, and cash flow from operations by approximately \$7,700 for the three months ended June 30, 2008. Foreign exchange rate risk may also affect commodity prices and create a commodity price change although the foreign exchange influence for natural gas is indirect, and cannot be accurately determined.

11. Capital structure

The Company's capital structure is comprised of shareholders' equity. The Company's objective when managing its capital structure is to:

- a) ensure the Company can meet its financial obligations,
- b) retain an appropriate level of leverage relative to the risk of Kroes' underlying assets, and
- c) finance externally major projects and potential acquisitions

Kroes manages its capital structure based on changes in economic conditions and the Company's planned capital requirements. Kroes has the ability to adjust its capital structure by making modifications to its capital expenditure program, divesting of assets and by issuing new debt or equity.

12. Subsequent events

On July 30, 2008, the Corporation announced that it had taken up and paid for all shares of Vecta Energy Corporation ("Vecta"), as well as the Vecta Debenture, tendered to the take-over bid by Kroes dated May 29, 2008. Kroes has issued 29,936,439 shares, 5,147,881 Kroes Class 1 Performance Warrants and 5,312,500 Kroes Class 2 Performance Warrants in payment for approximately 97% of Vecta's issued and outstanding shares and the Vecta Debenture. The balance of the Vecta shares will be compulsorily acquired under the provisions of the Alberta Business Corporation Act.

Names of directors and officers as at the date of this report:

Fred Callaway	Director, Executive Chairman
Thomas Coffman	Director, President and CEO
C. James Cummings	Director
Allen Gilmer	Director
Stewart D. Gossen	Director, Vice President Finance and CFO
Charles Selby	Director, Vice President Business Development
Kenneth West	Director
Darrell M. Zakreski	Director

Corporate Information

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Auditor: Grant Thornton LLP
Solicitors: ProVenture Law LLP
Transfer Agent: Equity Transfer & Trust
Company