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**KROES ENERGY INC.
UNAUDITED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED
SEPTEMBER 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 September 30, 2008. The information is provided as of November 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 third quarter results for 2007 have been restated so both periods take 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.

Netback per mcfe is calculated by dividing revenue, royalties and operating expenses by the gross sale volumes during the period. Netback per mcfe is a non-GAAP measure and is commonly used by oil and gas companies to illustrate the unit contribution of each mcf produced. For the purpose of calculating unit costs, oil has been converted to a mcf equivalent ("mcfe") using six thousand cubic feet for each barrel unless otherwise stated. A Mcf conversion ratio of one barrel equalling six thousand cubic feet of natural gas is based on an energy equivalency conversion method 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 in western Canada. As of the date of this report, it has drilled or acquired 23 wells in Alberta and has 21 wells capable of production. The Company has participated in three wells in the Brewster area in the Foothills area of Alberta with one well producing, one suspended and one drilled and cased waiting on completion.

Corporate Developments

On July 30, 2008 the Corporation completed its acquisition of Vecta Energy Corporation ("Vecta") and has taken up and paid for all of the Vecta shares and an outstanding Debenture that were tendered to the takeover bid by Kroes dated May 29, 2008. Following compulsory acquisition of the untendered shares of Vecta and the exercise of Performance Warrants, Kroes issued 35,986,523 common shares to complete the acquisition of Vecta. The formal amalgamation of the two companies was finalized on October 1, 2008. Under the terms of the takeover bid, 5,312,500 of the shares were allocated to the Debenture holder in satisfaction of the Performance Warrants.

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. 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.

At September 30, 2008, the Company had a working capital deficit of \$362,000 that arose due to a capital expenditure program of \$1.7 million for the nine months of the year and \$400,000 of extraordinary costs relating to the acquisition of Vecta. The Company has arranged a \$1.0 million bank line of credit that came into effect in November of 2008. It is expected that cash flow from operations will be sufficient to eliminate the working capital deficit over the next few months.

FINANCIAL AND OPERATING

Nine Months 2008

Kroes incurred a net loss from continuing operations of \$336,435 for the nine months of 2008, compared to a loss of \$623,500 for the same period in 2007. Cash flow from operations for the nine month period increased to \$446,129 from a negative \$176,340 in the comparable period 2007 reflecting the continuing success of the western Canadian shallow gas program and the production from the 15-11 Brewster well. Kroes acquired an interest in the Brewster well through the Vecta transaction.

Third Quarter 2008

Net loss from continuing operations for the three months ended September 30, 2008 was \$179,020 compared to a net loss of \$280,526 in the same period in 2007. Cash flow from operations increased to \$149,084 in the third quarter compared to a negative \$43,521 in the third quarter of 2007. Production in the third quarter averaged 127 boe/day as compared to 39 boe/day in 2007.

Western Canada Operations

Production for the first nine months of 2008 averaged 101 boe/d compared to 36 boe/d for the same period in 2007. Kroes has participated in the drilling of eight wells so far this year, with four of the wells coming on stream in the third quarter, three additional wells expected to be on stream in the fourth quarter and one dry hole. When all are connected, Kroes will hold interests in 14 producing shallow gas wells and one Foothills well. One more shallow gas well is expected to be drilled in the fourth quarter and one newly completed Foothills well will be put on stream early in 2009.

With respect to the recently acquired Vecta foothills lands, the status of existing wells is as follows:

15-11-43-13W5 – This Crew-operated well began producing from the Belly River formation in mid July and averaged 1.8 mmcf/d for the first two full months of production. Kroes has a 13.125% interest in the well and its share of gas and liquids production in the third quarter was 48 boe/d.

8-22-43-13W5 – This well was drilled and cased in October. Kroes has a 7.5% interest in this Crew-operated well that was completed in the Belly River formation. The well has several Belly River sands including one with 15 meters overall and indicated net pay of more than 5 meters with greater than 15% porosity. This compares favorably with the 15-11 well on log analysis. The operator is building a pipeline to tie in this well and expects to have it on stream by the end of January, 2009.

07-16-43-13 W5M – This previously drilled well was re-entered and fracture stimulated for completion in the Belly River zone in October. This well did not respond to the frac treatment and has been suspended pending geologic and engineering review. Kroes has a 13.125% working interest in this re-entry well.

The above wells are situated on 16 contiguous sections with Kroes interests varying from 7.5% to 25%. Presently there are six prospective locations that have been identified by the partners and it is expected that drilling will get underway in early 2009.

12-15-43-12W5 – Kroes is working with Buffalo Resources, the operator, to determine the best course of action for this suspended well. This includes reviewing pipeline access in the area and further review of fracture stimulation proposals. In addition, the Company is reviewing its extensive seismic coverage and tying in this data to subsurface geology in the immediate area. Pending results of this study, the partners may recommend completion of the 12-15 well. Kroes holds a 47.5% interest in this well. There are four more sections in this block where Kroes' interest varies from 36% to 42% and more wells will be planned for this area when pipeline access is resolved.

Wells Drilled

	Three Months Ended September 30				Nine Months Ended September 30			
	2008		2007		2008		2007	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Gas wells	3.0	0.5	-	-	7.0	1.3	4.0	1.0
D & A	1.0	0.2	-	-	1.0	.2	-	-
Total	4.0	0.7	-	-	8.0	1.5	4.0	1.0

Revenue

Gross revenue from continuing operations for the nine months of 2008 totalled \$1,371,019, a more than three-fold increase from the \$384,522 generated in the same period last year. Production from the 15-11 Brewster well was the largest contributor to increased revenue and production. The continued success of the western Canada shallow gas program also accounted for a significant increase in revenue. Daily natural gas production volumes averaged 587 mcf per day for the nine months compared with 218 mcf per day for the same period in 2007. Natural gas prices averaged \$8.64 per mcf in 2008 compared with \$6.77 in 2007.

Third quarter continuing operations provided 712 mcf of natural gas per day and resulted in \$517,391 in revenue. This compares with 227 mcf of natural gas per day and \$113,724 of revenue in 2007. Prices received for natural gas for the quarter ended September 30, 2008 averaged \$8.12 per mcf as compared to \$5.33 per mcf in the comparable period in 2007. The Brewster 15-11 well contributed to the liquids revenue during the period adding 8 barrel per day of production and \$60,000 of revenue during the quarter.

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

	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2008	2007	2008	2007
Revenue				
Liquids	\$55,809	\$ -	\$61,115	\$ -
Natural gas	517,391	113,724	1,309,904	384,522
	\$573,200	\$ 113,724	\$1,371,019	\$384,522
Royalties				
Liquids	\$21,379	\$ -	\$22,290	\$ -
Natural gas	117,820	24,842	285,961	93,430
	\$139,199	\$ 24,842	\$308,251	\$93,430
Liquids Production Volumes				
Barrels	752	130	804	130
Bbls per day	8	1	3	-
Natural Gas Production Volumes				
Mcf	65,495	20,904	160,751	59,443
Mcf per day	712	227	587	218
Boe equivalent Daily Production Volumes (6 mcf to 1 barrel)	127	39	101	36
Prices per Barrel				
Liquids	\$74.18	\$ 73.26	\$75.98	\$ 73.26
Prices per Mcf				
Natural Gas	\$8.12	\$ 5.33	\$8.64	\$ 6.77
Operating Expense per Mcfe	\$1.58	\$1.75	\$1.74	\$1.83

Royalties

Royalty payments arising from continuing operations in the nine months of 2008 were \$308,251 compared to \$93,430 in the same period of 2007, an average rate of 22% of gross revenue. The Brewster well 15-11 carries higher Crown royalties which led to the increase in the royalty rate.

Third quarter royalties were \$139,199 compared with \$24,842 in the same period in 2007.

Operating Expenses

For the nine months of 2008, production costs increased to \$271,569 from \$102,439 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 16% of operating expenses. In the third quarter 2008, total production costs from continuing operations were \$107,898 compared with \$35,494 in the same period last year.

General and Administrative

General and administrative expenses from continuing operations for the nine months were \$362,731 compared to \$417,985 in 2007. A reduction in consulting and audit fees relating to discontinued operations 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 Sept 30		Nine Months Ended Sept 30	
	2008	2007	2008	2007
Management, administration and consulting fees	\$ 87,753	\$51,797	\$ 158,902	\$ 145,675
Legal, accounting and audit	21,337	62,401	65,943	165,156
Trustee, TSX listing fees & shareholders communications	29,851	6,876	53,870	37,881
Office Rent	33,541	12,725	67,070	47,614
Office expenses and other	2,574	4,983	16,946	21,659
	\$ 175,056	\$ 138,782	\$ 362,731	\$ 417,985

Stock Based Compensation

In the nine months of 2008, stock based compensation expenses of \$83,688 were charged against earnings. This compares with \$88,805 charged to earnings in the nine 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 \$698,876 from \$218,405 in the nine months of 2007. In the third quarter of 2008, depletion and depreciation from continuing operations increased to \$294,905 from \$59,127 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 Sept 30		Nine Months Ended Sept 30	
	2008	2007	2008	2007
Canada				
Land acquisition	\$110,306	\$74,343	\$179,068	\$206,342
Geological, geophysical and seismic	215,000	-	293,739	78,120
Exploration drilling	624,849	165,059	871,159	360,300
Production equipment and facilities	106,678	72,231	158,236	113,600
Capitalized acquisition costs	251,990	-	392,580	-
Office equipment	-	-	3,706	-
	<u>\$1,308,823</u>	<u>\$ 311,633</u>	<u>\$1,898,488</u>	<u>\$ 758,362</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 nine months of 2008 averaged \$5.06 per mcf compared with \$3.36 in 2007. The breakdown is shown in the following table.

	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2008	2007	2008	2007
Per Mcf Equivalent				
Revenue	\$8.40	\$5.59	\$8.77	\$6.85
Royalties	(2.04)	(1.22)	(1.97)	(1.66)
Operating	<u>(1.58)</u>	<u>(1.75)</u>	<u>(1.74)</u>	<u>(1.83)</u>
Netback	<u>\$4.78</u>	<u>\$2.62</u>	<u>\$5.06</u>	<u>\$3.36</u>

Financial, Liquidity and Solvency

At September 30, 2008, the Company had a working capital deficit of \$362,135 that arose due to a capital expenditure program of \$1.7 million for the nine months of the year and \$400,000 of extraordinary costs relating to the acquisition of Vecta. The Company has arranged a \$1.0 million bank line of credit that came into effect in November of 2008. It is expected that cash flow from operations will be sufficient to eliminate the working capital deficit over the next few months.

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: 72,220,011 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
1,660,000 expiring August 20, 2012, exercisable at \$0.10
2,800,000 Expiring July 30, 2013 exercisable at \$0.10
5,760,000

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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial								
Oil and gas gross revenue (\$000's)	\$573	\$404	\$394	\$341	\$114	\$126	\$144	\$7
Royalties (\$000's)	139	87	82	67	25	32	36	1
Cash flow from operations (\$000's)	\$149	\$144	\$153	(\$237)	(\$44)	(\$95)	(\$17)	(\$215)
Per basic share	\$0.003	\$0.004	\$0.004	(\$0.007)	(\$0.001)	(\$0.003)	(\$0.000)	(\$0.006)
Per fully diluted share	\$0.003	\$0.004	\$0.004	(\$0.007)	(\$0.001)	(\$0.003)	(\$0.000)	(\$0.006)
Net income (loss) from continuing operations (\$000)	(\$179)	(\$71)	(\$87)	(\$335)	(\$281)	(\$196)	(\$126)	(\$281)
Per basic share	(\$0.003)	(\$0.002)	(\$0.002)	(\$0.010)	(\$0.008)	(\$0.005)	(\$0.003)	(\$0.008)
Per fully diluted share	(\$0.003)	(\$0.002)	(\$0.002)	(\$0.010)	(\$0.008)	(\$0.005)	(\$0.003)	(\$0.008)
Weighted shares outstanding (millions)								
Basic	58.0	36.2	36.2	36.2	36.2	36.2	36.2	36.1
Fully diluted	58.0	36.2	36.2	36.2	36.2	36.2	36.2	36.1
Operating								
Liquids production (Bbl/d)	8	-	-	2	1	-	-	-
Natural gas production (Mcf/d)	712	473	580	613	227	204	222	10
Liquids price \$/bbl	\$74.18	\$115.39	\$90.60	\$76.13	\$73.26	-	-	-
Natural gas price \$/Mcf	\$8.12	\$10.30	\$8.01	\$6.16	\$5.33	\$7.30	\$7.80	\$7.14

Additional Disclosures**Internal Controls over Financial Reporting**

For the quarter ended September 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 AsCB released an "Implementation Plan for Incorporating IFRS into Canadian GAAP", which assumed a convergence date of January 1, 2011. The AsCB 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,

"Tom Coffman"

Thomas D. Coffman, President and CEO
November 27, 2008

CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

(unaudited)

	Three months ended		Nine months ended	
	Sept 30, 2008	Sept 30, 2007 (Restated)	Sept 30, 2008	Sept 30, 2007 (Restated)
Revenues				
Oil and natural gas sales	\$573,200	\$ 113,724	\$1,371,019	\$ 384,522
Royalties	(139,199)	(24,842)	(308,251)	(93,430)
	<u>434,001</u>	<u>88,882</u>	<u>1,062,768</u>	<u>291,092</u>
Expenses				
Operating	94,346	28,292	227,327	85,482
Transportation	13,552	7,202	44,242	16,957
Interest	5,821	-	5,821	-
General and administrative	175,056	138,782	362,731	417,985
Stock Based compensation	33,199	37,928	83,688	88,805
Depletion and depreciation	294,905	59,127	698,876	218,405
Loss on distribution of investment	-	139,950	-	139,950
	<u>616,879</u>	<u>411,281</u>	<u>1,422,685</u>	<u>967,584</u>
Loss before other items and income taxes	(182,878)	(322,399)	(359,917)	(676,492)
Other items				
Interest and other items	3,858	41,873	23,482	52,992
Loss before income taxes	<u>(179,020)</u>	<u>(280,526)</u>	<u>(336,435)</u>	<u>(623,500)</u>
Income taxes	-	-	-	-
Loss before discontinued operations	<u>(\$179,020)</u>	<u>(\$280,526)</u>	<u>(\$336,435)</u>	<u>(\$623,500)</u>
Net earnings(loss) from discontinued operations (Note 9)	(9)	(3,653,594)	22,799	(3,240,534)
Net earnings(loss) for period	<u>(\$179,029)</u>	<u>(\$3,934,120)</u>	<u>(\$313,636)</u>	<u>(\$3,864,034)</u>
Retained earnings – Beginning of period	(\$4,451,261)	\$1,804,991	(\$4,316,654)	\$1,734,905
Distribution of investment	-	(1,959,302)	-	(1,959,302)
Retained earnings(deficit) – End of period	<u>(\$4,630,290)</u>	<u>(\$4,088,431)</u>	<u>(\$4,630,290)</u>	<u>(\$4,088,431)</u>
Net income(loss) attributable per common share before discontinued operations	<u>(\$0.003)</u>	<u>(\$0.008)</u>	<u>(\$0.008)</u>	<u>(\$0.017)</u>
Net income(loss) attributable per common share	<u>(\$0.003)</u>	<u>(\$0.109)</u>	<u>(\$0.008)</u>	<u>(\$0.107)</u>
Weighted average number of shares outstanding	<u>57,959,028</u>	<u>36,233,488</u>	<u>41,709,514</u>	<u>36,233,488</u>

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

(unaudited)

	Three months ended		Nine months ended	
	Sept 30, 2008	Sept 30, 2007 (Restated)	Sept 30, 2008	Sept 30, 2007 (Restated)
Net (loss) earnings	(\$179,029)	(\$3,934,120)	(\$313,636)	(\$3,864,034)
Other Comprehensive loss				
Foreign currency translation adjustment	-	-	-	-
Other Comprehensive loss	(\$179,029)	(\$3,934,120)	(\$313,636)	(\$3,864,034)
Accumulated Other Comprehensive Income (Loss)				
Beginning of period	\$-	(\$1,375,545)	\$-	(\$763,370)
Other comprehensive loss				
Foreign currency translation adjustment	\$-	1,375,545	\$-	763,370
Accumulated Other Comprehensive Income (Loss)				
End of period	\$-	\$-	\$-	\$-

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Three months ended		Nine months ended	
	Sept 30, 2008	Sept 30, 2007 (Restated)	Sept 30, 2008	Sept 30, 2007 (Restated)
Operating Activities				
Net loss for period	(\$179,020)	(\$280,526)	(\$336,435)	(\$623,500)
Items not affecting cash				
Stock option compensation	33,199	37,928	83,688	88,805
Depletion, depreciation and amortization	294,905	59,127	698,876	218,405
Loss on distribution of paid up capital	-	139,950	-	139,950
Cash flow from operations	149,084	(43,521)	446,129	(176,340)
Change in non-cash working capital	1,280,339	(74,070)	980,472	(295,548)
	1,429,423	(117,591)	1,426,601	(471,888)
Financing Activities				
Issue of common shares, net of financing costs	-	2,954	-	2,954
Partial payment on sale of investment in subsidiary	-	1,000,000	-	1,000,000
	-	1,002,954	-	1,002,954
Investing Activities				
Additions to capital assets	(1,308,823)	(311,633)	(1,898,488)	(758,362)
Acquisition of Vecta, net working capital	(335,968)	-	(335,968)	-
	(1,644,791)	(311,633)	(2,234,456)	(758,362)
Increase (decrease) in cash	(215,368)	573,730	(807,855)	(227,296)
Net cash flows of discontinued operations(Note 9)	-	(342,078)	282,949	859,819
Cash and short term investments, beginning of period	\$842,721	\$1,293,050	\$1,152,259	\$892,179
Cash and short term investments, end of period	<u>\$627,353</u>	<u>\$1,524,702</u>	<u>\$627,353</u>	<u>\$1,524,702</u>

CONSOLIDATED BALANCE SHEETS**Unaudited**

	September 30, 2008	December 31, 2007
ASSETS		
Current		
Cash and cash equivalents	\$627,353	\$1,152,259
Receivables	464,323	119,844
Prepays and deposits	30,532	9,553
Assets of discontinued operations (Note 9)	12,057	72,730
	<u>1,134,265</u>	<u>1,354,386</u>
Capital assets		
Petroleum and natural gas properties and equipment – net (Note 3)	6,310,164	1,907,645
Assets of discontinued operations (Note 9)	-	243,931
	<u>\$7,444,429</u>	<u>\$3,505,962</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Payables and accruals	\$1,495,633	\$149,703
Liabilities of discontinued operations (Note 9)	767	22,683
	<u>1,496,400</u>	<u>172,386</u>
Asset retirement obligations (Note 4)	37,941	32,736
Provision for future income taxes	397,249	-
Liabilities of discontinued operations (Note 9)	-	22,538
Shareholders' equity		
Capital stock (Note 5)	9,107,951	6,660,868
Warrants	17,402	-
Contributed surplus (Note 7)	1,017,776	934,088
Retained earnings	(4,630,290)	(4,316,654)
	<u>\$7,444,429</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 3rd quarter ended September 30, 2008, the Company has a net loss from continuing operations of \$336,435 (\$623,500 for the period ended September 30, 2007) and cash flow from operating activities of \$446,129 (\$176,340 loss for the period ended September 30, 2007).

The ability of the Company to continue to strengthen its going concern status depends on raising additional financing and achieving profitable operations sufficient to meet all obligations. In the opinion of Management, the use of the going concern assumption is appropriate.

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 entity's 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 11.

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 12.

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

	September 30, 2008		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Exploration and developments costs	\$3,366,095	\$962,642	\$2,403,433
Production equipment and processing facilities	440,143	161,451	278,692
Office equipment	41,324	24,208	17,116
Vecta acquisition	3,197,703	-	3,197,703
Capitalized acquisition costs	392,560	-	392,580
Retirement costs of long lived assets	35,418	14,778	20,640
	<u>\$7,473,243</u>	<u>\$1,163,079</u>	<u>\$6,310,164</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	
	September 30, 2008	December 31, 2007
Asset retirement obligations, beginning of period	\$32,736	\$2,862
Liabilities incurred	4,208	27,423
Revision of estimates	-	1,526
Accretion expenses	997	925
Asset retirement obligations, end of period	<u>\$37,941</u>	<u>\$32,736</u>

5. Share Capital

	September 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)
Acquisition of Vecta Energy	30,674,023	2,085,833	-	-
Class 2 performance warrants exercised	5,312,500	361,250	-	-
Share issue costs			-	2,954
Balance, end of year	<u>72,220,011</u>	<u>\$9,107,951</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 Sept 30		Nine Months Ended Sept 30	
	2008	2007	2008	2007
Basic	57,959,028	36,233,488	41,709,514	36,233,488
Fully Diluted	57,959,028	36,233,488	41,709,514	36,233,488

7. *Contributed Surplus*

	Period Ending	
	Sept 30, 2008	December 31, 2007
Balance, beginning of year	\$934,088	\$679,167
Value attributed to stock options granted	83,688	\$122,937
Transfer of carrying value of warrants expired	-	\$131,984
Balance, end of year	\$1,017,776	\$934,088

8. *Stock-Based Compensation Plans*

The Company has a Stock Option Plan for Directors, Officers and Consultants. As of September 30, 2008 there were 5,760,000 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 July 30, 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.

8. Stock-Based Compensation Plans (continued)

The following table summarises the information about the stock options:

	September 30, 2008		December 31, 2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Averaged Exercise Price
Options				
Outstanding, beginning	3,635,000	\$0.26	2,350,000	\$0.39
Granted	2,800,000	\$0.10	1,760,000	\$0.010
Exercised			-	
Cancelled	(675,000)	\$0.25	(475,000)	\$0.30
	<u>5,760,000</u>	<u>\$0.19</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 (%)	165%	168%
Weighted average risk-free interest rate (%)	3.3%	3.88%
Weighted average expected life of options (years)	5	5
Dividend yield (%)	-	-

The options granted 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		Nine months ended	
	Sept 30, 2008	Sept 30, 2007	Sept 30, 2008	Sept 30, 2007
Revenues – oil & gas	\$ -	\$497,523	\$ -	\$3,047,177
Less: Royalties	-	(273,181)	-	(1,598,230)
Operating costs	-	(120,124)	-	(549,205)
DD & A	-	(48,370)	-	(300,244)
G & A	(638)	(4,955)	(1,463)	(91,852)
Other	629	(3,762)	24,262	(15,412)
Income taxes	-	(112,053)	-	(144,096)
Net earnings(loss) – discontinued operations	(9)	(64,922)	22,799	348,138
Loss on sale	-	(3,588,672)	-	(3,588,672)
Net earnings(loss) of discontinued operations	(\$9)	(\$3,653,594)	\$22,799	(\$3,240,534)

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

	Three months ended		Nine months ended	
	Sept 30, 2008	Sept 30, 2007	Sept 30, 2008	Sept 30, 2007
Net earnings(loss) – discontinued operations	(\$9)	(\$3,653,594)	\$22,799	(\$3,240,534)
Net earnings(loss) of discontinued operations per common share Basic & diluted (Note 6)	(\$0.000)	(\$0.109)	\$0.001	(\$0.089)

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

	Period Ending September 30, 2008	
	Trinidad	Total
Cash and cash equivalents	\$12,057	\$12,057
Receivables and others	-	-
	\$12,057	\$12,057
Property and equipment	-	-
Payables and accruals	(767)	(767)
Asset retirement obligations	-	-
Net assets	\$11,290	\$11,290

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)	(22,638)
Asset retirement obligations	<u>(22,538)</u>	<u>(22,538)</u>
Net assets	<u>\$271,440</u>	<u>\$271,440</u>

10. Acquisition of Vecta Energy Corporation

On July 30, 2008, the Corporation acquired 97% of the shares of Vecta Energy Corporation and on August 26, 2008 the balance of the Vecta shares were compulsorily acquired under the provision of the Alberta Business Corporations Act. Kroes issued 30,674,023 common shares and 5,312,500 Class 1 Performance Warrants in payment of 100% of the shares of Vecta. The assets were amalgamated into Kroes on the following basis:

Cash	\$524,566
Accounts receivable	93,492
Deposits	25,000
Property, plant & equipment	3,197,703
Accounts payable	(979,026)
Provision for future income taxes	(397,249)
Warrants	(17,402)
Capital stock	(2,447,084)

11. 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.

12. 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.

13. 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