

**KROES ENERGY INC.**  
(the "Corporation")

**Management Information Circular  
for the Annual and Special Meeting to be held on May 29, 2007**

**Dated April 27, 2007**

**PROXIES**

**Solicitation of Proxies**

This management information circular is furnished in connection with the solicitation of proxies for use at the annual and special meeting of shareholders (the "Meeting") to be held at the Calgary Petroleum Club, 319-5<sup>th</sup> Avenue S.W, Calgary, AB at 3:00 PM on Tuesday, May 29, 2007 and at any adjournment. Forms of proxy must be deposited with Computershare Trust Company of Canada, Proxy Department, 9th floor – 100 University Avenue, Toronto, Ontario, M5J 2Y1, not less than 48 hours before the time for holding the Meeting (excluding Saturdays, Sundays and holidays) or any adjournment. Only holders of common shares (the "shareholders") of record at the close of business on April 27, 2007 will be entitled to vote at the Meeting, unless that shareholder has transferred any shares subsequent to that date and the transferee shareholder, not later than 10 days before the Meeting, establishes ownership of the shares and requests that the transferee's name be included on the list of shareholders.

The form appointing a proxy must be in writing and must be executed by you or your attorney authorized in writing or, if you are a corporation, under your corporate seal or by an authorized officer or attorney of the corporation.

The persons named in the enclosed form of proxy are officers or directors of the Corporation. As a shareholder you have the right to appoint a person, who need not be a shareholder, to represent you at the Meeting. To exercise this right you should insert the name of your representative in the blank space provided on the form of proxy and strike out the other names or submit another appropriate proxy.

**Voting of Shares - Advice to Beneficial Shareholders**

The information set forth in this section is of significant importance to you if you do not hold your shares in your own name. Only proxies deposited by shareholders whose names appear on our records as the registered holders of shares can be recognized and acted upon at the Meeting. If shares are listed in your account statement provided by your broker, then in almost all cases those shares will not be registered in your name. Such shares will likely be registered under the name of your broker. Shares held by your broker can only be voted upon your instructions. Without specific instructions, your broker is prohibited from voting your shares.

Applicable regulatory policy requires your broker to seek voting instructions from you in advance of the Meeting. Each broker has its own mailing procedures and provides its own return instructions, which you should carefully follow in order to ensure that your shares are voted at the Meeting. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Investor Communication Solutions ("Broadridge"). Broadridge mails a Voting Information Form

("VIF") instead of the form of proxy. You are asked to complete and return the VIF to them by mail or facsimile. Alternately, you can call their toll-free telephone number or use their internet voting procedure to vote your shares. If you receive a VIF from Broadridge it cannot be used as a proxy to vote shares directly at the Meeting as the proxy must be returned to Broadridge in advance of the Meeting in order to have the shares voted.

### **Revocability of Proxy**

You may revoke your proxy at any time prior to a vote. If you attend personally at the Meeting, you may revoke the proxy and vote in person. In addition to revocation in any other manner permitted by law, a proxy may be revoked by an instrument in writing executed by you or your attorney authorized in writing or, if you are a corporation, under your corporate seal or by a duly authorized officer or attorney of the corporation. To be effective the instrument in writing must be deposited either at the Corporation's head office, or with Computershare Trust Company of Canada, at any time up to and including the last business day before the day of the Meeting, or any adjournment of the Meeting, at which the proxy is to be used, or with the chairman of the Meeting on the day of the Meeting, or any adjournment of the Meeting.

### **Persons Making the Solicitation**

This solicitation is made on behalf of management. The Corporation will bear the costs incurred in the preparation and mailing of the proxy materials. In addition to mailing forms of proxy, proxies may be solicited by personal interviews, or by other means of communication, by the directors, officers and employees who will not be remunerated for their services.

### **Exercise of Discretion by Proxy**

Where you specify a choice with respect to any matter to be acted upon the shares will be voted on any poll in accordance with the specification so made. If you do not provide instructions your shares will be voted in favour of the matters to be acted upon as set out in the form of proxy. The persons appointed under the form of proxy are conferred with discretionary authority with respect to amendments of the matters specified in the proxy and with respect to any other matters which may properly be brought before the Meeting or any adjournment. At the time of printing of this management information circular, management is not aware of any amendments.

### **Request for Financial Statements**

National Instrument 51-102 "Continuous Disclosure Obligations" sets out the procedures for a shareholder to receive financial statements. If you wish to receive financial statements, you may use the enclosed form or provide instructions in any other written format.

### **VOTING SHARES AND PRINCIPAL SHAREHOLDERS**

The Corporation is authorized to issue an unlimited number of common shares. As at April 27, 2007, there were 36,233,488 common shares issued and outstanding. As a shareholder, you are entitled to one vote for each share you own. A quorum for the transaction of business at the Meeting is one shareholder or appointed proxy holder, present and representing not less than 5% of the voting shares.

To the knowledge of the Corporation, as at April 27, 2007 no person or corporation beneficially owns, directly or indirectly, or exercises control or direction over, more than 10% of the shares entitled to vote at the Meeting.

## MEETING AGENDA

### 1. Fixing the Number of Directors

It is proposed that the number of Directors be fixed at seven.

### 2. Election of Directors

It is proposed that seven directors be elected, to hold office until the next annual meeting or until successors are elected or appointed. There are currently seven directors, each of whom retires from office at the close of the Meeting. Unless otherwise directed, it is the intention of management to vote proxies in favour of the nominees.

In the event that a vacancy occurs because of death or for any reason prior to the Meeting, the proxy shall not be voted with respect to the filling of the vacancy.

<b>Name and Residence</b>	<b>Voting Shares</b>	<b>Offices Held and Time as Director</b>	<b>Principal Occupation</b>
Fred Callaway <sup>1</sup> Alberta, Canada	2,392,639	President, Director since June 1996	President of the Corporation
C. James Cummings Alberta, Canada <sup>1,2</sup>	150,000	Director since February 2006	Partner, International Energy Counsel LLP
Stewart Gossen <sup>3</sup> Alberta, Canada	130,000	Director since June 2006	Vice President of the Corporation
David Powell <sup>1,3</sup>	839,866	Director since June 1996	Independent Consultant
Edward Southern Alberta, Canada	2,583,678	Director since January 2002	Executive Vice President of the Corporation
Dr. James Werbicki <sup>3</sup> Saskatchewan, Canada	2,078,101	Director since January 2002	Medical Doctor
Darrell Zakreski <sup>1,2</sup> Alberta, Canada	2,498,178	Director since January 2002	Real Estate Developer

<sup>1</sup>Member of the Audit Committee

<sup>2</sup>Member of the Compensation Committee

<sup>3</sup>Member of the Reserves Committee

The information as to voting securities beneficially owned, directly or indirectly, is based upon information furnished by the nominees.

No proposed director is, as at the date of the information circular or has been, within the last 10 years, a director or executive officer of any corporation that while that person was acting in that capacity (a) was the subject of a cease trade or similar order or an order that denied the relevant corporation access to any exemption under securities legislation, for a period of more than 30 consecutive days; (b) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the corporation being the subject of a cease trade or similar order or an order that denied the relevant corporation access to any exemption under securities legislation, for a period of more than 30 consecutive days; or (c) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

No proposed director has within the last 10 years become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

### **3. Appointment of Auditors**

Management is nominating the firm of Grant Thornton LLP, Calgary, AB as auditors, to hold office until the next annual meeting or until their successor is appointed and to authorize the directors to fix their remuneration. Grant Thornton LLP has been the Corporation's auditors since January 31, 2003

### **4. Approval of Stock Option Plan**

The TSX Venture Exchange requires Issuers to obtain shareholder approval annually of a 10% rolling stock option plan (the "Plan"). Shareholders originally approved the Plan at a meeting held June 9, 1996. The plan was approved as required by the TSX Venture Exchange and approved by Shareholders in subsequent years. The Corporation currently has 36,233,488 common shares outstanding which means that 3,623,349 common shares could be reserved for the issuance upon the exercise of stock options, if no additional shares were issued during the next 12 months. As of the date of this circular, there are 2,350,000 common shares reserved for the exercise of stock options.

The aggregate number of common shares issuable upon the exercise of options granted under the Plan at any time may not exceed 10% of the total number of issued and outstanding common shares and the aggregate number of common shares issuable to any one officer, director or full time employee may not exceed 5% of the total number of issued and outstanding common shares. The period during which an option granted under the Plan is exercisable may not exceed five years from the date such option is granted. The price at which common shares may be acquired upon the exercise of an option may not be less than the price permitted under the rules of any stock exchange or exchanges on which the common shares are listed. The Plan is subject to all of the provisions of the TSX Venture Exchange Policy 4.4. A copy of the plan is available upon request from the Corporation and copies will be available at the Shareholder's meeting.

Subject to the foregoing restrictions, and certain other restrictions set forth in the Plan, the board of directors is authorized to provide for the granting of options and the exercise and method of exercise of options granted under the Plan. Options granted under the Plan are non-assignable. Options are subject to early termination in the event of the death of a participant or in the event a participant ceases to be an officer, director, employee or consultant.

The Plan has served as an integral component of the Corporation's compensation system. The Board of Directors recommends that the shareholders vote in favour of the Plan.

## **5. Sale of Zhoda 2001 Corporation**

### **Description of the Transaction**

The Corporation has entered into an agreement with Shelton Canada Corp. ("Shelton") whereby Shelton will purchase from the Corporation 100% of the issued and outstanding shares of Zhoda 2001 Corporation ("Zhoda") (the agreement is entitled "Offer to Purchase" and was signed by the Corporation and by Shelton on March 28, 2007.) Shelton is a publicly traded corporation listed on the TSX Venture Exchange under the symbol STO. Zhoda is the wholly owned subsidiary of the Corporation and is the owner of the 45% interest in the Kashtan Petroleum Joint Venture oilfield exploitation and development project in Ukraine. Management estimates that the shares of Zhoda represent approximately 80% of the assets of the Corporation.

In consideration for the shares of Zhoda, Shelton will pay to the Corporation a total of \$4,927,753 as follows: (a) \$1,000,000 paid by cash; (b) \$3,498,753 by issuance of 6,997,507 common shares of Shelton; and (c) \$429,000 by way of transfer of western Canadian oil and gas interests to the Corporation. The Corporation is also entitled to retain all cash in Zhoda's bank accounts which was approximately \$1.3 million at December 31, 2006.

The sale of Zhoda shares is scheduled to close on May 31, 2007. The closing of the sale is subject to a number of conditions, including approval for the sale by the shareholders of the Corporation and all relevant regulatory authorities, and the completion of due diligence investigations on the part of both Shelton and the Corporation. The completion of a financing by Shelton is also a condition of the closing of the sale.

The Corporation intends to distribute the Shelton shares received by it in the sale to the shareholders of the Corporation as soon as practical after closing.

### **Description of the Assets Being Sold**

Under the terms of the Agreement with Shelton Canada Corp., the Corporation has agreed to sell all of the shares of Zhoda to Shelton. Zhoda's only asset is a 45% interest in the Kashtan Petroleum Ltd. ("Kashtan") Joint Venture. The remaining 55% interest in Kashtan is held by Ukrnafta JSC, a Ukrainian company controlled by the Ukrainian government. Kashtan holds the license to rehabilitate the Lelyaki oilfield in Ukraine.

The Corporation has owned its 45% interest in Kashtan since 2002 over which time the Joint Venture's production grew from 375 barrels per day to 530 barrels per day in 2004. However, for a variety of technical and business reasons, the Joint Venture has been unable to increase production above this level. According to the latest reserves report prepared by PetroGlobe (Canada) Ltd. at December 31, 2006, under favourable circumstances, Kashtan production from proven and probable reserves could reach 3,700 BOPD in the next several years. However, there are a number of reasons why production levels may continue to languish below potential:

- The partners have been unable to reach agreement on the takeover of field operations by Kashtan despite the fact that Kashtan holds the license to the field and has received regulatory approval to operate
- Value added tax of 20% and onerous new government royalties of 47% result in marginal development economics and are a disincentive to accelerated field development.
- Regulations governing the petroleum industry are archaic and, in particular, prevent the production of crude oil from more than one producing zone at the same time thereby delaying efficient development of reserves and growth in production.

Accordingly, it is likely that Kashtan will continue to underperform its potential until these issues are resolved. This concern is particularly applicable with respect to proved undeveloped and probable reserves. At December 31, 2006, the Corporation's share of reserves from the Kashtan Joint Venture were as follows:

	<b>MSTB</b>	
	<b>Before Royalty</b>	<b>After Royalty</b>
Proved producing	710	378
Proved developed non-producing	957	509
Proved undeveloped	3,654	1,944
Total Proved	5,320	2,830
Probable	3,381	1,799
Total Proved + Probable	8,702	4,629

Net present values of Corporation's share of reserves from the Kashtan Joint Venture at December 31, 2006:

**FORECAST PRICES AND COSTS**

<b>RESERVES CATEGORY</b>	<b>NET PRESENT VALUES OF FUTURE NET REVENUE</b>									
	<b>BEFORE INCOME TAXES</b>					<b>AFTER INCOME TAXES</b>				
	<b>DISCOUNTED AT (% / YEAR)</b>					<b>DISCOUNTED AT (% / YEAR)</b>				
	0 M\$	5 M\$	10 M\$	15 M\$	20 M\$	0 M\$	5 M\$	10 M\$	15 M\$	20 M\$
Developed Producing	5,696	4,532	3,802	3,302	2,934	4,223	3,359	2,817	2,446	2,177
Developed Non-Producing	9,140	5,166	3,328	2,356	1,790	6,815	3,856	2,486	1,763	1,338
Undeveloped	27,210	13,023	6,318	2,926	1,114	20,245	9,482	4,432	1,903	569
<b>TOTAL PROVED</b>	<b>42,046</b>	<b>21,345</b>	<b>13,448</b>	<b>8,584</b>	<b>5,839</b>	<b>31,284</b>	<b>16,697</b>	<b>9,735</b>	<b>6,113</b>	<b>4,084</b>
<b>TOTAL PROBABLE</b>	<b>34,490</b>	<b>19,602</b>	<b>12,157</b>	<b>8,076</b>	<b>5,673</b>	<b>25,866</b>	<b>14,702</b>	<b>9,116</b>	<b>6,057</b>	<b>4,255</b>
<b>TOTAL PROVED + PROBABLE</b>	<b>76,536</b>	<b>40,947</b>	<b>25,605</b>	<b>16,661</b>	<b>11,512</b>	<b>57,150</b>	<b>31,398</b>	<b>18,850</b>	<b>12,169</b>	<b>8,338</b>

A complete summary of the Corporation's reserves evaluated in accordance with NI 51-101 is attached as Schedule C to this Information Circular.

Zhoda has no other non cash assets other than the reserves as described above. Under the terms of the Agreement, the Corporation is entitled to recover all cash in Zhoda's bank accounts. Such amounts were approximately \$1.3 million at December 31, 2006.

**Description of the Properties Being Acquired**

A portion of the compensation being received for the sale of Zhoda is Shelton's interest in two Western Canadian properties – Alexander, Alberta and Flat Rock, B.C.

**Alexander, Alberta**

The Alexander Indian Reserve #134 is located in Townships 55 and 56, Ranges 26 and 27, West of the Fourth Meridian in the Province of Alberta and covers approximately 17,000 acres. Under a seismic option agreement, Shelton and its partner have the right to acquire seismic over the lands and, in general, for each 25 miles of 2-D seismic they can earn a 100% interest in four sections of prospective land. Shelton holds a 20% working interest in the agreement. This multi-zoned area includes Belly River, Ostracod, Eilerslie, Glauconite and Wabamun potential. Two wells presently

produce a small volume of natural gas and Shelton's share amounts to 15,000 cubic feet per day or 3 barrels of oil equivalent per day.

Flat Rock, British Columbia

The Flat Rock property is located in Township 84, Ranges 16 and 17, West of the Sixth Meridian in the Province of British Columbia. Shelton holds interests in two mature producing oil wells – one at 1.14% working interest and another at 6.43%. The wells also produce associated natural gas and condensate for a combined production rate of 4 equivalent barrels of oil per day net to Shelton.

Sproule Associates Limited completed a reserves evaluation for these Western Canadian properties dated November 30, 2006 (Shelton's year end). A copy of this report prepared in accordance with NI 51-101 was not available at the time of printing, but was expected to be filed on SEDAR shortly thereafter.

### **Discussion of Shelton Canada Corp.**

The following information has been derived from documents authored and published by Shelton Canada Corp. The source documents and other disclosure made by Shelton may be accessed by the reader on the SEDAR website at [www.sedar.com](http://www.sedar.com).

Shelton is an internationally focused junior oil and gas exploration and development Corporation operating primarily in Ukraine with minor producing assets in the Western Canadian Sedimentary Basin as discussed above.

Ukraine is a newly developing democratic country with one of the fastest growing economies in Central and Eastern Europe. It is moving toward a Western style democracy with potential future membership in the European Union. Ukraine occupies a unique geopolitical and geographical position and represents one of the world's largest transporters of fuel and energy resources. It has limited production locally and a majority of natural gas (75%), and oil (80%) is imported into the Ukraine from Russia, Turkmenistan, Kazakhstan.

With significant oil and gas resources, Ukraine creates a unique opportunity for companies like Shelton. Shelton has built relationships with local private and state owned oil and gas companies. Shelton's strategy is to raise capital from foreign investors in order to participate in joint ventures with local partners and to acquire existing exploitation and exploration projects in Ukraine.

Azov Sea/Black Sea, Ukraine

Shelton has a joint investment agreement with Chernomornaftogas, a Ukrainian joint stock company, who is the pre-eminent explorer in the region. Pursuant to this agreement, Shelton and Chernomornaftogas jointly have the exploration and development rights for the West Biryuche property, offshore in the Azov Sea. Shelton has a 50% working interest in this project and the joint exploration and drilling "special license" for West Biryuche which covers a territory of approximately 76 km<sup>2</sup>. Currently there is no production from this property.

The first exploration and appraisal well, Biryucha #1, has been drilled to total depth of 1700 meters. Wireline logging has identified thick reservoir quality sandstand reservoirs in both the Lower

Cretaceous and shallower Maikop zones. The Lower Cretaceous shows a 30 meter thick sandstone averaging 30% porosity. The Maikop shows 60 meter thick sandstone averaging 26% porosity. Log analysis indicated the Lower Cretaceous was water bearing with no show of hydrocarbon during the drilling program. Testing through casing perforations of the upper portion of the Maikop zone has shown slight dissolved gas content in the collected samples. However, no commercial quantities of gas were detected. Valuable information gained from the drilling of Biryucha #1 well is being integrated into the current database and will aid in selection of future drilling targets. The impairment loss of \$2,121,827 recorded in A3 relates to the write-off of capitalized costs related to this well.

There are plans to drill another well on West Biryucha structure into the Maikop zone. Required funds will need to be raised. Chernomornaftogas has the required equipment and manpower.

In addition, Shelton has added the North and East Biryucha fields as well as the North Kerchenskaya field to the existing agreement with Chernomornaftogas. Shelton will have a 50% working interest and the concessions will be jointly developed and operated with Chernomornaftogas. All of the required licenses from Ukrainian Government to proceed with the work on these properties have been obtained. Geological and Engineering studies are underway on the West, East and North Biryucha properties as well as on the North Kerchenskaya field.

On February 1, 2007 Shelton announced it has entered into an agreement with Chernomornaftogas to acquire a concession known as the North Kerchenskaya field in the southern part of the Azov Sea. The finalization of the acquisition and development of this project will be completed by a wholly owned foreign subsidiary of Shelton. This concession holds the North Kerchenskaya structure which was discovered initially by seismic and subsequently found to be gas bearing through drilling. Two gas wells have been drilled which have defined an estimated resource of up to 160 billion cubic feet of recoverable natural gas. Gas was tested from both wells at rates up to 2.5 million cubic feet per day from Miocene age reservoirs at drill depths of approximately 1300 meters. The North Kerchenskaya field is approximately 25 kilometers offshore with water depth of 12 meters. This concessions lies adjacent to the natural gas producing properties of North Bulganakskoye and East Kazantipskoye which produce from sediments of similar age. Shelton will have a 50 percent working interest in the North Kerchenskaya concession through a wholly owned foreign subsidiary, and the concession will be jointly developed and operated with Chernomornaftogas.

On January 30, 2007 Shelton announced that it has received TSX Venture Exchange final acceptance for a private placement of an aggregate of 3,980,000 units for gross proceeds of \$995,000 previously announced on November 16, 2006. Each Unit is comprised of one common share and one-half Common Share purchase warrant. Each whole warrant entitles the holder to purchase one additional Common Share at a price of \$0.40 per Common Share for a period of eighteen months following the date of closing.

### **Certain Canadian Federal Income Tax Considerations**

The following summary sets out the principal Canadian federal income tax considerations relevant to the sale of the wholly owned subsidiary, Zhoda 2001 Corporation ("Zhoda"), and a distribution of certain assets to the shareholders. This summary only applies to shareholders who at all material times are resident in Canada, deal at arm's length with the Corporation and hold the shares as capital property, all within the meaning of the Income Tax Act (Canada) ("Tax Act").

The shares held in the Corporation will generally be considered to be capital property to a shareholder unless such shareholder holds such shares in the course of carrying on a business or has acquired such shares as an adventure in the nature of trade. This summary does not apply to shareholders that are financial institutions or to investors who are subject to the mark-to-market provisions of the Tax Act.

This summary is based on the Tax Act and the regulations to the Tax Act ("Regulations") taking into account the specific proposals to amend the Tax Act publicly announced prior to the date hereof (the "Proposals") and upon management's understanding of the prevailing administrative practices of the Canada Revenue Agency ("CRA"). This summary does not exhaustively address all of the income tax consequences of the transaction. This summary does not take into account the provincial or territorial tax laws of Canada or tax laws of any foreign country. This summary does not otherwise take into account or anticipate any change in law or administrative practice. No assurances can be given that the Proposals will be enacted as proposed or that legislative, judicial or administrative changes will not modify or change the statements expressed herein.

The Canadian federal income tax consequences to a particular shareholder will vary according to a number of factors including the particular province in which the investor resides, carries on business or has a permanent establishment. This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular shareholder. **Each shareholder should obtain independent advice regarding the income tax consequences of the transactions with reference to his particular circumstances.**

#### Sale of the Shares of Zhoda 2001 Corporation

The Corporation will dispose of Zhoda for proceeds equal to the fair market value of the consideration it will receive from the purchaser, Shelton Canada Corp. It is expected that the fair market value of the consideration will be greater than the adjusted cost base or tax cost of Zhoda. The amount by which the fair market value of the consideration exceeds the adjusted cost base of Zhoda will be a realized gain to the Corporation. Management believes that this disposition is outside the ordinary course of the Corporation's business, not an adventure or concern in the nature of trade, and as such is the sale of a capital property. Therefore the gain will be treated on account of capital as a capital gain. One-half of the capital gain ("taxable capital gain") must be included in the computation of the taxable income of the Corporation. Management anticipates that all or substantially all of this taxable capital gain will be offset by non-capital operating losses carried forward or incurred in the current year.

As part of the proposed transactions the Corporation will receive shares of Shelton (Shelton shares) as partial consideration for the sale of Zhoda. It further intends to distribute the Shelton shares to the shareholders of the Corporation on a pro-rata basis as soon as practical after closing. The distribution of these shares will result in a disposition of the Shelton shares by the Corporation. The proceeds to the Corporation on this disposition will be the fair market value of the Shelton shares at the date of distribution. To the extent that the fair market value of the Shelton shares at this date are higher or lower than the cost base of the Shelton shares to the Corporation there will be a gain or loss to the Corporation. The cost base of the Shelton shares to the Corporation will be the fair market value of the Shelton shares at the date the Corporation receives them as consideration for the sale of Zhoda. Management believes the Shelton shares will be a capital property of the Corporation. Due to the immediate distribution of the Shelton shares to the shareholders it is anticipated any gain or loss in the disposition of the shares will be immaterial. In the event there is a gain or loss, the additional

taxable capital gain will be included in the computation of the taxable income of the Corporation. One-half of the capital loss ("allowable capital loss") will be first deducted against taxable capital gains of the Corporation for the year of disposition, including the gain on the sale of Zhoda. To the extent that allowable capital losses exceed taxable capital gains for the year the resulting allowable capital loss may be deducted against taxable capital gains of the three years preceding the year of disposition or any subsequent year.

#### Receipt of Shelton Shares by the Shareholders

Shareholders of the Corporation will receive a pro-rata distribution of the Shelton shares from the Corporation, which received the shares as partial consideration of the sale of Zhoda. The Corporation anticipates that the distribution of the Shelton shares will be accomplished by way of a return of the paid-up capital of the Corporation's issued and outstanding shares. This is the only anticipated reduction of paid-up capital from the proceeds received by the Corporation from the sale of Zhoda.

The Corporation has previously issued flow-through shares and entered into other transactions involving the issuance of its shares. For purposes of the Tax Act the Corporation is required to reduce its paid-up capital by 50% of the Canadian Exploration Expenses renounced in respect of its flow through shares and may be restricted in adding certain amounts to its paid-up capital for tax purposes on the issuance of its shares for consideration other than cash.

Provided the Corporation has paid-up capital, as calculated under certain provisions of the Tax Act, in excess of the fair market value of the Shelton shares distributed to the shareholders, the shareholders will receive the Shelton shares as a return of capital. To the extent that the Corporation does not have sufficient paid-up capital as calculated under the Tax Act, the excess of the fair market value of the Shelton shares at the date of distribution over the Corporation's paid-up capital as calculated under the Tax Act will be a taxable dividend to the shareholders. The return of capital will reduce the shareholders' adjusted cost bases of the shares in the Corporation. To the extent the return of capital is greater than a shareholder's adjusted cost base, the shareholder will have a capital gain. The taxable capital gain will be included in the taxable income of the shareholder.

The adjusted cost base of the Shelton shares received by the shareholder will be equal to the fair market value of the Shelton shares at the date the shareholder receives the Shelton shares.

#### **Future Strategy**

Subsequent to the completion of the Transaction, the Corporation intends to focus on domestic oil and gas operations. The Corporation expects to continue its relationship with Montane Resources Ltd. ("Montane") in pursuing shallow gas prospects in central Alberta. The Corporation will also investigate options for expanding its western Canada operations through internal growth and corporate transactions.

Internationally, the Corporation will look to dispose of its investment in Trinidad if favourable terms can be realized. The Corporation does not intend to seek involvement in new international projects.

The cash raised from the sale of Zhoda 2001 Corporation will be used to fund exploration and development under the Joint Venture with Montane, and possibly to acquire other oil & gas properties if suitable opportunities arise.

The Corporation intends to distribute the Shelton shares received by it from the sale to the shareholders of the Corporation as soon as practical after closing.

### **Board Recommendation**

The Board of Directors of Kroes Energy Inc. unanimously supports the transaction as described in this Information Circular and recommends that shareholders approve the transaction at the Annual and Special Meeting of Shareholders to be held on May 29, 2007. The reasons for the Board's recommendation are as follows:

- Kroes has had a difficult relationship with its joint venture partner, Ukrnafta JSC, for several years. Ukrnafta has failed to abide by the terms of the license agreement for the Lelyaki oilfield, particularly with respect to operatorship of the field, and has often acted unilaterally with respect to field operations. The Corporation has been unable to rectify this situation with Ukrnafta and has been unwilling to pursue legal recourse due to the unpredictability of Ukrainian courts.
- Since the Orange Revolution began in 2005, the political environment in Ukraine has been characterized by uncertainty and chaos. Moreover, an urgent need to find sources of funding has resulted in the government imposing an extremely onerous royalty of almost 47% on onshore oil and liquids production, despite the fact the original license agreement for the Kashtan joint venture was royalty free.
- The Corporation's long-time country manager in Ukraine developed personal health problems in 2005 and is no longer able to represent the Corporation in-country. The Corporation has been unable to find an effective replacement.
- In October 2004, the Corporation entered into a letter agreement with NAK Naftogas, the parent Corporation of Ukrnafta JSC, under which the Corporation would acquire all of the Kashtan Joint Venture in return for shares in Kroes Energy Inc. This agreement would have allowed the Corporation to control the development of the Lelyaki oilfield. Unfortunately, the Corporation has been unable to consummate this transaction in the intervening period, and it is the Corporation's view that the successful completion of this transaction is very unlikely.
- Shelton may be better positioned than the Corporation to pursue the development of the Lelyaki oilfield through ownership of the 45% interest in Kashtan Petroleum Ltd. Shelton has strong business relationships in Ukraine, Ukrainian speaking senior management, a diversity of gas exploration projects which do not attract onerous royalties, and a financing strategy to fund long term operations in Ukraine.
- The Transaction structure as previously described, will allow shareholders to continue to participate in the Kashtan Joint Venture, through Shelton, should they so desire.

### **Resolution**

The sale of Zhoda 2001 Corporation constitutes a sale of all or substantially all of the assets of the Corporation, and as such the approval of the sale requires an affirmative vote by no less than two

thirds of the shareholders of the Corporation eligible to vote at the Meeting. The following is the resolution that will be presented at the meeting:

“Be it resolved that the Corporation sell the shares of Zhoda 2001 Corporation to Shelton Canada Corp. for the consideration and on the terms and conditions contained in the Offer to Purchase dated March 28, 2007 and agreed to by the Corporation and by Shelton Canada Corp.”

## EXECUTIVE COMPENSATION

### Compensation of Named Executive Officers

The following compensation information relates to amounts paid to our Named Executive Officers. None of the other executive officers received a salary and bonus exceeding, in the aggregate, \$150,000 during the year ended December 31, 2006.

Name and Principal Position	Year	Annual Compensation			Long-term Compensation	
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Shares under Options Granted (#)	All other Compensation (\$)
Fred Callaway President & CEO/Director	2006	72,000	Nil	Nil	525,000	Nil
	2005	48,000	Nil	Nil	785,000	Nil
	2004	16,000	25,000	Nil	610,000	Nil

The Corporation does not currently have a CFO

### Role of the Compensation Committee

The general function of the Committee is to review and evaluate the performance of the officers and employees on an annual basis and to provide the Board with its recommendations for compensation for the ensuing year. The Corporation's executive compensation program is comprised of cash compensation and stock options. The Committee reviews and determines the overall compensation package for each of the senior executive officers on an annual basis; subject to the approval of the Board.

### Management Compensation and Employment Contracts

The Corporation has entered into Consulting Services Contracts (“Contracts”) with Executive Officers Fred Callaway, Edward Southern, and Stewart Gossen on February 1, 2006. These contracts have a term of 12 months but if not formerly renewed, will automatically extend for a further 12 months. The Contracts describe the primary functions of each of the Officers and provides for remuneration to be established by the Board of Directors on the recommendation of the Compensation Committee. The Contracts also provide that in the event of termination for any reason other than grave misconduct or wilful neglect, a termination fee of one month's contract remuneration for each twelve months of service since December 31, 2002 will be paid.

## Option Grants during the Most Recently Completed Financial Year

There were no options granted to purchase Common Shares to the Named Executive Officers during the fiscal year ended December 31, 2006.

## Option Exercises

The following table provides information for options exercised by the Named Executive Officers during the year ended December 31, 2006 and their option positions as at December 31, 2006.

Name	Options Exercised (#)	Aggregate Value Realized (\$)	Unexercised Options at Year End			
			Number of Options		Value of in-the-Money Options <sup>(1)(2)</sup>	
			Exercisable (#)	Unexercisable (#)	Exercisable (\$)	Unexercisable (\$)
Fred Callaway, President	260,000	45,500	642,000	58,000	Nil	Nil

### Notes:

- (1) The value of unexercised in-the-money options at year-end is based on the closing price of the common shares on the TSX Venture Exchange on December 31, 2006 that was \$0.155 per share.
- (2) "In-the-money" means that the market value of the common shares underlying the options on that date exceeded the option exercise price.

## Compensation of Directors

The Non-Executive Directors receive \$1,000 for each meeting attended either in person or by conference call. Directors serving on committees receive \$250 for each committee meeting attended either in person or by conference call. Upon the initial appointment a new Director receives 100,000 stock options. On September 30, 2006 the Directors voluntarily waived all Director and meeting fees until further notice.

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The Stock Option Plan is the only equity compensation plan. The following table sets forth information with respect to the options outstanding under the Plan as at December 31, 2006.

<b>Plan Category</b>	<b>Number of Common Shares to be Issued Upon Exercise of Outstanding Options</b>	<b>Weighted-Average Exercise Price of Outstanding Options</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding Securities Reflected in Column (a))</b>
Equity compensation plans approved by securityholders	2,350,000	\$0.39	1,273,349
Equity compensation plans not approved by securityholders	Nil	Nil	Nil
Total	2,350,00	0.39	1,273,349

## EXTERNAL AUDITOR SERVICE FEES

### Audit Fees

The aggregate fees billed by the Canadian external auditor in the years ending December 31, 2006 and December 31, 2005 for audit services was \$121,730 and \$80,600 respectively.

### Audit-Related Fees

The aggregate fees billed by the external auditor in the years ending December 31, 2006 and December 31, 2005, for assurance and related services by the Corporation's external auditor that were reasonably related to the performance of the audit or review of the Corporations financial statements and are not reported above under the heading "Audit Fees" was \$548.00 and Nil respectively.

### Tax Fees

The aggregate fees billed by the external auditor in the years ending December 31, 2006 and December 31, 2005, for tax compliance, tax advice and tax planning services was \$2,410 and Nil respectively.

### All Other Fees

The aggregate fees billed by the external auditor in the years ending December 31, 2006 and December 31, 2005, for all other services other than as described above under Audit Fees, Audit-Related Fees, and Tax Fees was \$6,260 and Nil, respectively.

## **INDEBTEDNESS OF DIRECTORS AND SENIOR OFFICERS**

Management is not aware of any indebtedness (other than routine indebtedness) outstanding by any of the Directors, Executive Officers or any of their associates, or any guarantees, support agreements, letters of credit or similar arrangements provided by the Corporation or any subsidiaries, to these individuals, at any time since the commencement of the last completed financial year.

## **INTERESTS OF INSIDERS IN MATERIAL TRANSACTIONS**

There were no material interests, direct or indirect, of any of the insiders, any proposed nominee for election as a Director, or any associate or affiliate of such persons, in any transaction since the last completed financial year or in any proposed transaction which has materially affected or would materially affect the Corporation or any of the subsidiaries, except as disclosed elsewhere in this management information circular.

## **INTERESTS OF CERTAIN PERSONS AND COMPANIES IN MATTERS TO BE ACTED UPON**

Management is not aware of any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, of any person who has been a director or executive officer at any time since the beginning of the last financial year, of any proposed nominee for election as a director, or of any associates or affiliates of any of these individuals, in any matter to be acted on at the Meeting other than the election of directors or the appointment of auditors.

## **AUDIT COMMITTEE**

Pursuant to the provisions of Multilateral Instrument 52-110, Audit Committees ("MI 52-110"), the Corporation's Audit Committee has adopted a written charter that sets out its mandate and responsibilities. The charter is attached hereto as Schedule "A". The Corporation is a venture issuer as defined in MI 52-110 and is relying on the exemptions provided to it with respect to Audit Committee reporting obligations and the composition of the Audit Committee.

The Audit Committee is presently comprised of David Powell, Fred Callaway, Darrell Zakreski and James Cummings, all of whom are considered financially literate but who may not be considered as independent within the meanings given to those terms in MI 52-110.

## **CORPORATE GOVERNANCE PRACTICES**

The Corporation's Corporate Governance Disclosure policy is attached as Schedule "B" to this circular.

## **OTHER MATTERS**

Management knows of no amendment, variation or other matter to come before the Meeting other than the matters referred to in the notice of annual general meeting. If any other matter properly comes before the Meeting, the proxy will be voted on those matters in accordance with the best judgment of the person voting the proxy.

## **ADDITIONAL INFORMATION**

Additional financial information regarding the Corporation's business is contained in the audited consolidated financial statements and management's discussion and analysis for the year ended December 31, 2006. These statements and all the continuous disclosure documents submitted to the Securities Commissions and Stock Exchange can be found on SEDAR at [www.sedar.com](http://www.sedar.com). Shareholders may request a copy of the financial statements and management's discussion and analysis at 1840, 444-5<sup>th</sup> Ave. S.W., Calgary, AB T2P 2T8 Ph (403) 265-7711 Fx (403) 265-7733

## Schedule A

### Audit Committee Charter

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The members of the Audit Committee are: David Powell (Chair), Fred Callaway, James Cummings and Darrell Zakreski. The committee's mandate includes:

- Recommending to the Board, the nomination and compensation of the external auditors;
- Reviewing the annual audited financial statements prior to submission to the Board for approval;
- Reviewing the quarterly financial statements prior to submission to the Board for approval;
- Reviewing the scope of external audits;
- Reviewing and discussing accounting and reporting policies and changes in accounting principles
- Meeting with the external auditors independently of management; and
- Overseeing the Corporation's Business Conduct and Whistleblower Policies.

## Schedule B

### CORPORATE GOVERNANCE DISCLOSURE

#### 1. Board of Directors

The Board acts independently of management and expects management to manage the business of the Corporation in a manner that enhances shareholder value and is consistent with the highest level of integrity. Management is expected to execute the Corporation's long-range plans, meet performance goals and objectives and to provide reports on the financial and operating performance of the Corporation at quarterly Board meetings.

Appropriate limits for authority and responsibilities are clear to all involved with the Corporation to ensure activities and decisions have the full support of the Board. Major acquisitions and dispositions, appointment of officers, stock option plans and awards, and succession planning are all subject to Board approval. The Board also reviews and approves all public disclosure documents.

The Board receives quarterly updates on financial and operating results. Quarterly meetings are held to review and approve the quarterly financial statements provided to the shareholders. These quarterly meetings also include updates on operations, current year forecast, risk management and investor relations. The Chief Executive Officer interacts regularly with the other members of the Board to ensure activities and results align with expectations.

The Board is composed of seven Directors. Four of the directors are unrelated to the Corporation, as defined in the TSX guidelines, and they are: C. J. Cummings, D. E. Powell, Dr. J. E. Werbicki and D. M. Zakreski. Directors who also are officers of the Corporation are: F. Callaway, President, S. D. Gossen, Vice President, and E. M. Southern, Executive Vice President.

#### 2. Directorships

C. J. Cummings is a Director of Niko Resources Ltd.

D. E. Powell is a Director of Sterling Resources Ltd.

#### 3. Orientation and Continuing Education

The Board ensures that a new member is provided access to senior management to discuss the current business strategy, encourages new members to meet individually with current members to discuss historical information and has access to the minute books.

#### 4. Ethical Business Conduct

The Board of Directors has approved a Business Conduct Policy and a Whistleblower Policy that allows employees to anonymously report any accounting or auditing concerns.

## **5. Nomination of Directors**

The Board as a whole proposes nominees and a majority of the independent directors meet with the nominee to ensure compatibility with current members.

## **6. Compensation**

The members of the Compensation committee are Darrell Zakreski and James Cummings.

The committee's mandate is to determine the compensation and terms of employment for senior executives, including the granting of stock options, and to assess the performance of the President and Chief Executive Officer. This is done annually by reviewing the published data for peer companies

## **7. Other Board Committees**

The Board has a Reserves Committee – Reserves Committee members are David Powell (Chair), Dr. James Werbicki, and Stewart Gossen.

The committee's mandate includes:

- Reviewing management's recommendations for the appointment of the independent qualified evaluations engineers;
- Reviewing the scope and methodology of the independent engineers' evaluation;
- Reviewing problems experienced by the independent engineers, including any restrictions imposed by management or significant issues on which there was a disagreement with management; and
- Reviewing all public disclosure documents containing reserves information prior to its release.

## **8. Assessments**

The Board reviews the performance of its members on an annual basis by individual meetings of independent and non-independent directors to ensure that all members are aware of their responsibility to contribute to the management of the Corporation.