

**SISM****Research & Investment Services**

November 7, 2008

Analyst: Ernest C. Schlotter
Telephone: +4144-881-2020**Company Insight!****Industry: Oil & Gas Exploration & Production****Kodiak Energy Inc. US\$0.58****Kodiak Holds Large Land Bases With Multiple Commodity Potentials**

Kodiak Energy Inc. is a multi-project company with a world-class land position of more than 340,000 gross acres leased for exploration and development in multiple jurisdictions and work environments. Very importantly, in each of the succeeding years since its inception, Kodiak Energy has progressively added value to each project with strategic exploration plans and has financed and implemented those plans. Their projects are now at key milestones in the cycle of exploration, development, and production. Kodiak intends to start with a vertical shale gas fracture stimulation into the Muskwa/Evie shale gas formation during this winter season. A production testing, which will include a multi-point flow and build up test, will be completed after stimulation. The Lucy project has the potential to yield immediate cash flow or a capital divestiture opportunity, which will then fund other developments. If the project is a success, the Company estimates its valuation to be approx. \$35 million. For the Little Chicago Prospect, Chapman Engineering estimated a heavily-risked probability of success of 14% and calculated a cumulative cash flow before income tax, discounted at 15%/year, to be \$244.9M or \$2.55/share. Given its current share price, it appears that only a very small portion of the upside potential is currently being priced into KDKN shares based on our total risk-adjusted ANW of \$379.8M or \$3.45 per share.

Kodiak Energy, Inc**Risk Adjusted ANW Analysis as of June 30, 2008**

Proved reserves as of 06/30/2008	\$0
Unevaluated properties	\$ 33,567,220
Other property plant, equipment, net	\$ 80,287
Other assets	\$ 346,303
Net working capital	\$ 706,972
Long-term debt and other liabilities	(\$343,999)
Appraised Net Worth (ANW)	\$34,356,783
ANW Per share (110,023,998 shares outstanding)	\$0.31

Unproved:	
EL 413 Little Chicago NWT	\$244,900,000
Lucy British Columbia Project Estimated by Kodiak	\$35,500,000
New Mexico Project Estimated by SISM	\$65,000,000
Total Potential Value	\$345,400,000
Per share (110,023,998 shares outstanding)	\$3.14
Total Risk-Adjusted ANW	\$3.45

Source: Company reports, business plan, SEC filings

Financial Data

FY 2008	Ends December 31, 2008
Market Capitalization	US\$ 63.8 million
Shares outstanding (August 8, 2008)	110,023,998
Book Value/ Share (June 30, 2008)	\$0.31
Price/Book Ratio	1.8
Est. 5 Year Earning Growth	N/A

Stock Data

52-Week Range	\$3.69 – 0.65
Symbol / Exchange	OTC BB:KDKN
1-Year Return	-83.43 %

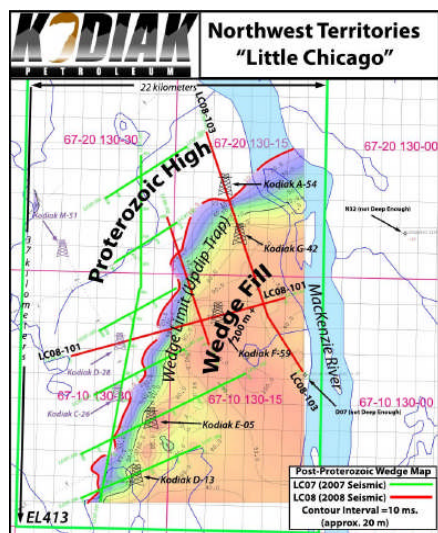
Stock Chart**INVESTMENT HIGHLIGHTS:**

- **Kodiak Energy released the prospective resource evaluation report on Little Chicago, with a higher NPV than earlier estimated.** On May 1, 2008, Chapman Petroleum Engineering concluded a prospective resource evaluation report on Little Chicago that recommends and supports Kodiak's participation in the Project. Chapman calculated a risk-adjusted NPV discounted at 15% of \$244.9M, which is approx. 15% higher than earlier estimated. Kodiak's strategy exploration drilling program is to evaluate the leased area for hydrocarbon potential calls to drill two wells, the Kodiak Arctic #1 and Arctic #2 wells, with an estimated production rate of 1,000 barrels per well. An application to extend the exploration license has been submitted.
- **Kodiak's Lucy lease is situated on the South East edge of the Horn River Basin and the Muskwa shale gas prospect.** Industry continues to show dramatically increased interest in this shale gas play and several comparisons have been made that show the Muskwa shale gas potential is an analogue of the Barnett shale gas fields currently being developed in Texas. Kodiak intends to start with a vertical shale gas fracture stimulation into the Muskwa/Evie shale gas formation during this winter season. A production testing, which will include a multi-point flow and build up test, will be completed after stimulation. The project has the potential for immediate cash flow or a capital divestiture opportunity, which will then fund other developments.
- **Kodiak's New Mexico leasehold is a world class project with prospects for CO₂ for enhanced oil recovery purposes.** To date, three wells have been drilled and cased by the Company. A 38-mile seismic program was completed by Kodiak on budget and the data processed. The data was of excellent quality and has been reviewed to support future drilling and development plans. The producing formations contain a very high quality of 98.4% to 99.5% CO₂. Since the New Mexico project is a major scale, long-term development, a 3 to 5 year development plan is currently being evaluated. The lifecycle of production is estimated to be 20 to 25 years with an estimated \$65M project value.
- **Kodiak is continuing to prove up it assets and is moving to cash flow (Lucy Project), which we believe will soon be reflected in its share price.** The resource evaluation report conducted on the Little Chicago released in May gives us a better understanding about the overall project potential. In our view, the new reports reduce the project's risk of failure significantly, but risks do still exist, e.g., the possibility of encountering either poor or no development of reservoir quality faces. Our heavily risked-adjusted calculated Appraised Net Worth per Kodiak share is \$3.45. We acknowledge that the risk profile may be more than some investors are comfortable with and therefore we recommend the stock be purchased only by investors who can tolerate above average risk. In conclusion, we initiate a Strong Speculative Buy/4 rating for Kodiak Energy with a 12 – 18 month target price of \$3.45/share based on 1.00x P/ANW valuation metric. This is an approximate six times price appreciation from current price levels.

PROJECT UPDATES

EL 413 Little Chicago, NWT – A World Class High Impact Exploration Project with the potential for up to 1 billion barrels of crude oil in place

To date, 84 kilometers of 2D seismic, shot during the 2006/2007 winter season, and an additional 43 kilometers of 2D seismic, shot during the winter of 2007/2008, were successfully completed on time. The seismic data have been analyzed, with five high grade and ten less well-defined Bear Rock leads, which may indicate areas of

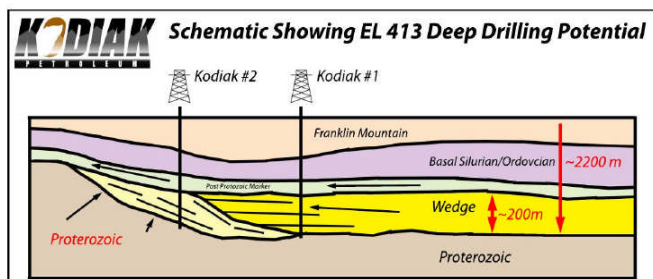


collapsed breccia and potentially forming prolific reservoirs. These indicators are scattered all along several seismic lines that suggest the presence of these occurrences throughout the block. More geophysical investigation is warranted to identify optimum drilling locations. A pinchout at the top of the Precambrian has also been identified as a prospective trap for hydrocarbons. The

Bear Rock overlies the Basal Sand pinchout and may allow both prospects to be penetrated by each exploratory well. In addition to these two structures, a deeper large structure is indicated at the 4,500-meter range, which has not been evaluated in this report but may warrant further investigation.

Multiple drilling locations have been identified for each of the prospective target formations and four to six of the locations will be licensed.

Kodiak's strategy of exploration drilling to evaluate the leased area for hydrocarbon potential calls for the Company to drill two wells, the Kodiak Arctic #1 and Arctic #2. The planned total depth is approx. 2,250 m or approx. 7,381 feet to evaluate the Landry/Arnica (Bear Rock) and the Mount Cap/Mount Clark formations along the seismically defined pinch out area. An application to extend the exploration license has been submitted.



The risk in the development of the EL 413 on the Little Chicago Prospect includes the possibility that the geologically successful well may not find sufficient hydrocarbons to justify completion. Or if completed, may not establish commercial rates or, if placed on production may not generate enough revenue over the project life to recover all the costs associated with developing the project.

On May 1, 2008, Chapman Petroleum Engineering finished the Evaluation of Prospective Resources for Kodiak's EL 413 Little Chicago Project in accordance with NI 51-101 Sec. 5.9, pertaining to prospects and resources utilizing forecast prices and costs. Kodiak engaged Chapman Engineering to independently determine the feasibility study for the exploration and development of the prospective resources in EL 413 and to determine the magnitude of the prospect resources in Little Chicago and the economic value after the consideration of risk.

Kodiak currently owns a 56.25% Working Interest (WI) in the EL 413 but has signed a letter of intent with the Corporation's partner that will allow Kodiak to become a 100% Working Interest owner after closing. This effectively doubles the net land position in the project to a total of 201,160 acres. This will substantially enhance Kodiak's ability to bring additional regional partners into the drilling project.

Summary of Company Prospective Resources and Economics Before Income Tax Chapman Petroleum Engineering May 1, 2008

Description	Cum. Cash Flow (BIT) – M\$			
	Light & Medium Oil MSTB		Discounted at:	
	Gross	Net	Un-discounted	Disc. at 15% / Year
BEFORE RISK				
Arithmetic Average				
Little Chicago (Bear Rock)	61,132	60,251	5,067,313	1,544,847
Little Chicago (Cambrian/ Top Precambrian)	14,154	13,852	1,104,448	399,319
Total	75,286	74,103	6,171,762	1,944,166
AFTER RISK				
Arithmetic Average				
Little Chicago (Bear Rock)	8,558	8,435	703,400	210,300
Little Chicago (Cambrian/ Top Precambrian)	1,546	1,524	112,100	34,600
Total	9,974	9,959	815,500	244,900

The above values have been prepared by Chapman Petroleum Engineering Ltd., which is independent of the Company. The evaluation has been prepared by persons who are qualified reserves evaluators and auditors.

Lucy PNG Lease 44,104, Muskwa Shale Gas Prospect - British Columbia – The Muskwa Shale Gas Potential Is An Analogue Of The Barnett Shale Gas Fields in Texas

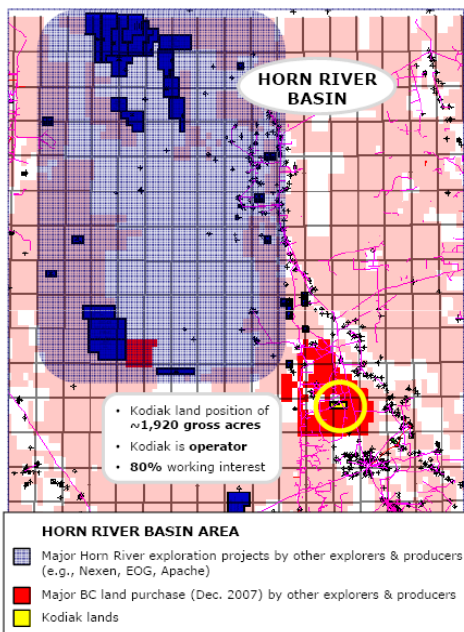
Kodiak is the operator and holds an 80% Working Interest in this play. A formal three year lease extension approval from the Oil and Gas Commission (OGC) was received on August 12, 2008. The Lucy lease is situated on the southeast edge of the Horn River Basin and the Muskwa shale gas prospect. Industry continues to show dramatically increased interest in this shale gas play and several comparisons have been made that the Muskwa shale gas potential is an analogue of the Barnett shale gas fields currently being developed in Texas. Recent BC crown land sales in the Horn River Basin have averaged \$10,000 per hectare with the total provincial land sale proceeds exceeding a record value of \$2 billion for 2008. Kodiak's leasehold is in the heart of these major land acquisitions.

Exploration History - Three deep wells have been drilled on the Lucy acreage to test Middle Devonian reefal prospects. These deep wells are: a-89-A (1993), d-9-A (2007), and a-79-A (2008). None of these wells was successful, but all have casing deep enough to allow the Evie shale gas internal to be tested and horizontal legs to be drilled into the Evie Shale. All other wells on the acreage are shallow tests to zones in which the Company has no Working Interest.

Plan of Operation

The 79-A well was drilled vertically in January 2008 and cased. It was determined that the Middle Devonian seismic anomaly was not a reef buildup and the wellbore was cased due to encountering significant gas shows in the Muskwa formation, plus having a formation thickness of approximately 60 meters. A work program is expected to be executed during the 2008/09 winter season to stimulate the Muskwa/Evie shale, using a staged vertical fracture, and then flow tested to evaluate its post fracture deliverability. Production testing, which will include a multi-point flow and build up test, will be completed after stimulation. This test and development program could be one of the first Horn River Basin projects in this area to be put on commercial production and would begin to validate the overall reserves in the area. *This project has the potential to yield immediate cash flow or a capital divestiture opportunity, which will then fund other developments.*

Chapman Engineering prepared an assessment of the prospective resources as of May 1, 2008, targeting the Evie gas shale. Chapman has not given any estimates on prospective resources, as based on exploration history since none of the wells was successful. However, Chapman's estimates, for the low case, considered only the free gas



in the zone and estimated this to be approx. 16 Bcf/section of original-gas-in-place. For the high case, Chapman used published resource estimates provided by an operator in the Horn River Basin, adjusted to the shale thickness in this part of the basin. This resulted in 48 Bcf/section of original-gas-in-place. To obtain the best estimate, the engineering company took the average of the high and low estimates, which was 32 Bcf/section of original-gas-in-place. From published reservoir parameters provided by the B.C. Oil and Gas Commission, Chapman estimated the recovery factor to be 55%, with a surface loss of 10%.

Kodiak's Estimated Successful Project Valuation (Using conservative published parameters)

Kodiak - Industry Prospect Comparison Muskwa/Evie Shale Gas		
Parameter	Industry Values (Publicly Available)	Kodiak Values (see notes)
Reservoir Thickness (ft)	60 - 600	150 - 225 a
Total Organic Carbon (%)	0.9 - 6.1	2.2 - 5.7 b
Gas Filled Porosity (%)	3.2 - 6.2	4 b
Adsorbed Gas (scf/ton)	9.6 - 16	20 - 22 b
Silica Content (%)	48 - 86	26 - 36 b
Gas in Place (Bcf/section)	20 - 350	32 - 48 c

NOTES

- a: e-line evaluation log
b: independent lab result
c: industry calculation

Lucy Land Value (undeveloped) 777 hectares x \$10,000/ha (average)	\$7.7 MM
Original Gas In Place (OGIP) 41 Bcf/section x 3 sections	123bcf
Potential Recoverable Gas Reserves 123 Bcf OGIP x 25% recovery rate	30.75bcf
30.75bcf RGIP x \$1 per Mcf recoverable reserves in the ground	\$30.75 MM
Wells and Facilities	\$5.0 MM
TOTAL PROJECT VALUATION	\$35.5MM

Tucumcari Basin, New Mexico – A World Class Development Project

Kodiak's New Mexico leaseholds are prospects for CO₂ for enhanced oil recovery purposes. Its land position with a 100% Working Interest which expires in approx. 10 years covers approximately 78,000 gross acres with key infrastructure located immediately adjacent to or within the Kodiak properties. The leaseholds cover four prospects: the Sofia, the Spear Draw, the Cimarron, and the Gallegos properties. Target formations include Santa Rosa, Glorieta and Yeso. To date, three wells have been drilled and cased. A 38-mile seismic program was completed by Kodiak, on budget and the data processed. The data was of excellent quality and is currently being reviewed to support future drilling and development plans. The producing formations contain a very high quality of 98.4% to 99.5% CO₂.

The downhole pressures at the Sofia prospect were lower than expected, and thus the projected reserves at Sofia are less than anticipated. However, based on the additional seismic completed in April 2008, along with subsequent analysis, the CO₂ is expected to be widely distributed over the held properties. The Company has several other opportunities to increase its land position. Since the New Mexico project is a major scale, long-term development, a 3 to 5 year development plan is currently being evaluated. The lifecycle of production is estimated to be 20 to 25 years, and we estimate a project value of \$65 million.

RISK-ADJUSTED ANW ANALYSIS

Proved ANW

Proved reserves as of 06/30/2008	
Total Bcf	\$0
Unevaluated properties	\$ 33,567,220
Other property plant, equipment, net	\$ 80,287
Other assets	\$ 346,303
Net working capital	\$ 706,972
Long-term debt and other liabilities	(\$343,999)
Appraised Net Worth	\$34,356,783
ANW Per share (110,023,998 shares outstanding)	\$0.31

Unproved:

EL 413 Little Chicago NWT (1)	\$244,900,000
Lucy British Columbia (2)	\$35,500,000
New Mexico (3)	\$65,000,000
Total Potential Value	\$345,400,000
Per share (110,023,998 shares outstanding)	\$3.14
Total Risk-Adjusted ANW	\$3.45

- (1) Little Chicago based on the Chapman report dated May 1, 2008 discounted at 15%
(2) Lucy based on Kodiak's Successful Project Valuation
(3) New Mexico, SISMS estimate 500 Bcf CO₂, valued at \$0.13 Mcf

VALUATION AND RECOMMENDATION

It is always difficult to gauge how much upside is priced into a stock, but it appears Kodiak is undervalued. In the Lucy project in British Columbia, Management's data and calculations suggest 30.75 Bcf of gas at a recovery rate of only 25%. Kodiak Energy calculated a successful project value to be \$35.5 million or \$0.32/share. For the Little Chicago Prospect, Chapman estimated a heavily-risked probability of success of 14% for the arithmetic average of the three cases considered in the report and calculated a cumulative cash flow before income tax, discounted at 15%/year, to be \$244.9M or \$2.55/share. For the New Mexico project we have been estimating a project value of \$65 million or \$0.59/share based on approx. 500 Bcf of CO₂ reserves. All together, we have arrived at a heavily risked-adjusted Appraised Net Worth per share of \$3.45. Time will tell if these plays prove successful, but given the enormous potential upside, exposure is warranted. We acknowledge that the risk profile may be more than some investors are comfortable with and therefore we recommend the stock be purchased only by investors who can tolerate above average risk. In conclusion, we initiate a Strong Speculative Buy/4 rating for Kodiak Energy with a 12 – 18 month target price of \$3.45/share based on 1.00x P/ANW valuation metric. This is an approximate six times price appreciation from current price levels.

ANALYST DISCLOSURE

Analyst: Ernest C. Schlotter

Ernest C. Schlotter has been an analyst in the energy field since 1998. He is a securities analyst covering energy with SISM Research & Investment Services, Zurich, Switzerland. His areas of focus have included all energy industry sub-sectors, with a focus on independent companies in exploration/production. According to the tracking firm StarMine based in San Francisco, Ernest C. Schlotter is a four out of five star analyst for EPS estimate accuracy.

Analyst Certification:

I, Ernest Schlotter, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.