



Research & Investment Services

September 14, 2007

Analyst: Ernest C. Schlotter
Telephone: +4144-881-2020

Company Insight!

Industry: Gas Exploration & Production

Kodiak Energy, Inc. US\$2.86

WORD CLASS PROSPECTIVE TARGETS FOUND IN EL 413

Kodiak's seismic and gravity surveys in EL 413 in Little Chicago, completed in the first quarter of 2007, identified two definitive prospective targets, plus one even larger target, which still needs to be quantified. In addition, seismic interpretation indicates a series of pools of varying sizes and pay thickness distributed throughout the project. Should these structures be distributed even partially over the block, a major reserve will have been discovered. The evaluation of the prospective resources, conducted in accordance with NI 51-101 and performed by Chapman Petroleum Engineering Ltd. of Calgary in August 2007, identified thirteen possible primary drill targets in the Bear Rock and has estimated initial production (IP) of 13,000 Bbls/d or 1,000 Bbls/d per well. Chapman calculated the risk-adjusted cumulative cash flow before income tax on the two zones to be \$547M (\$5.88 per share) undiscounted and \$210M (\$2.25/share) discounted at 10%/year. In addition, in the very near future, Kodiak will begin a seismic and gravity program in the Tucumcari Basin in New Mexico for shallow CO₂ targets, with potentially several hundreds BCF of CO₂ reserves and near-term cash-flow.

Kodiak Energy, Inc.

Condensed Balance Sheet as of June 30, 2007

Current Assets	\$ 2,008,938
Current Liabilities	\$5,172,797
Long Term Debt	\$106,743
Shareholders Equity	\$4,264,332
Total Assets	\$9,599,352

Source: Company reports, business plan, SEC filings

Financial Data

FY 2007	Ends December 31, 2007
Market Capitalization	US\$ 266,8 million
Shares outstanding (08.14.2007)	93,284,368
Book Value/ Share (June 30 2007)	\$0.05
Price/Book Ratio	NA
Est. 5 Year Earning Growth	N/A

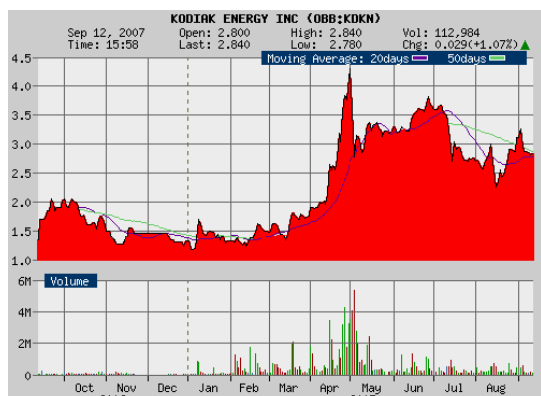
Stock Data

52-Week Range	\$4.47 - 1.00
Symbol / Exchange	OTC BB:KDKN
1-Year Return	116.66 %

Reserve Data

Year-End 2006	N/A
Proven Reserves	N/A
PV-10	N/A
% Proved Developed	N/A
% Natural Gas	N/A

One Year Stock Performance

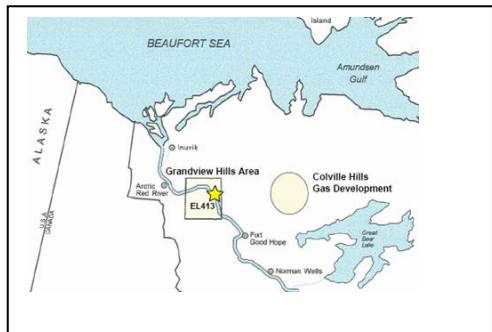


INVESTMENT HIGHLIGHTS:

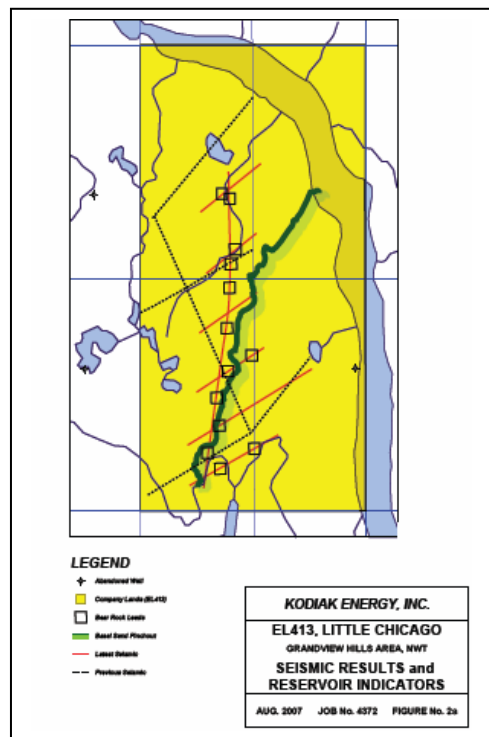
- ◆ **Kodiak's first drilling target is the Devonian Bear Rock Prospect at a depth of approx. 710 meters.** The new seismic data shows that there is a series of smaller pools of varying size and pay thickness distributed throughout the project area. From earlier data, it was thought that there was only a single pool located in the south central portion of the land. These smaller pools are seen on a minimum of more than 50 km of the 84 km of new seismic surveys obtained. It is reasonable to expect that the prospect would extend beyond the actual seismic lines, and a more intensive seismic program will be undertaken to provide that definition. Should these structures be distributed even partially over the block, a major reserve will have been discovered with the potential of 3.5 billion barrels of oil in place.
- ◆ **The second target, the Basal Cambrian Sand/Top Precambrian Prospect,** was identified from the recently acquired seismic and indicates a significant structure. The drilling target is located at a depth of approx. 2300 meters and is a new structure not seen on the previous evaluation work. Chapman's "best estimate" is for 18,000,000 STB (risky) of recoverable oil, using primary recovery methods, with an estimated 18 to 20% recovery rate. This can be extrapolated to 200 to 300 million barrels of oil originally in place. When using secondary recovery methods on this type of reserve, recoveries of more than 40% have been achieved.
- ◆ **As it is reasonable to expect that the prospect would extend beyond the actual seismic lines,** a more intensive seismic program, which should begin in late 2007, would be required to provide that definition. The initial drill program would be to target three wells in the winter of 2008/09 to prove and test the Bear Rock prospect. Subsequent to those tests, additional seismic, as well as a more intensive drill programs would be proposed to progress the project to the development stage, targeting between 10 and 20 wells to bring production into the 10,000 Bbls/d net range. This is the approximate production target that will then enable construction of the oil pipeline from Norman Wells to Little Chicago by a third party pipeline company. A reasonable date for completion of the pipeline would be 2011 to 2012.
- ◆ **It is always difficult to gauge how much upside is priced into a stock,** but it appears Kodiak is undervalued. 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 10%/year to be \$210,137,000 or \$2.26/share on only ten wells. (Industry is typically valued at 6x cash flow.) In addition, we believe that Kodiak will generate cash flow in 2008 from selling CO₂ from its Sofia prospect in New Mexico and grow shareholder value. 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 reaffirm our Speculative Buy/4 rating for Kodiak Energy and increase our 12 - 18 month target price to \$6.00 - \$8.00

LITTLE CHICAGO A COMPANY MAKING ASSET

Kodiak's Little Chicago Block is located 125 miles north of the giant Norman Wells oil field and 95 miles south of the MacKenzie River Delta and is comprised of 198,873 acres gross or 159,098 net acres. By conducting the 1Q2007 seismic program, the Company has earned a 12.5% interest. A 50% interest is being purchased and an option to farm-in 17.5% will bring the total interest to approx. 80% once earning provisions are fulfilled. Kodiak Energy, Inc. is the operator of the block and will be in full control of the development process. Kodiak's primary reservoir target in the area is the dolomitized Bear Rock formation, which is expected to be encountered at 710 meters and is of Middle Devonian age. During the first quarter of 2007, Kodiak conducted a 2D seismic program over the License area and analyzed the new data as well as previous seismic data. From earlier data, it was thought that there was only a single pool located in the south central portion of the land, but the new data identified thirteen Bear Rock leads, which may indicate areas of collapsed breccia, potentially forming prolific reservoirs. These indicators are scattered along each seismic line, which suggests the presence of these occurrences throughout the block. A second formation, the Basal Cambrian Sand/Top Precambrian Prospect, was identified from the new seismic data, and indicates a significant structure with closure on three sides. The drilling target is located at a depth of approx. 2300 meters and is a new structure not seen on the earlier evaluation work. In addition to these two horizons, a deeper much larger structure is indicated at the 4,500-meter range, which has not been evaluated in the Chapman report but warrants further investigation. The product expected from the reservoir is light and medium oil; the price is based on Edmonton Light Sweet crude. It is very important to note that no solution gas has been considered in the project evaluation.



From earlier data, it was thought that there was only a single pool located in the south central portion of the land, but the new data identified thirteen Bear Rock leads, which may indicate areas of collapsed breccia, potentially forming prolific reservoirs. These indicators are scattered along each seismic line, which suggests the presence of these occurrences throughout the block. A second formation, the Basal Cambrian Sand/Top Precambrian Prospect, was identified from the new seismic data, and indicates a significant structure with closure on three sides. The drilling target is located at a depth of approx. 2300 meters and is a new structure not seen on the earlier evaluation work. In addition to these two horizons, a deeper much larger structure is indicated at the 4,500-meter range, which has not been evaluated in the Chapman report but warrants further investigation. The product expected from the reservoir is light and medium oil; the price is based on Edmonton Light Sweet crude. It is very important to note that no solution gas has been considered in the project evaluation.



The Exploration License 413 will expire on September 17, 2009. The work commitments associated with this license have already been partly fulfilled (seismic work) and will be fulfilled in full by drilling one well. Approved areas of the Exploration License can be converted to a Production License if there is a significant discovery. The main risk to this play includes the possibility of encountering either poor or no development of reservoir quality facies in the Bear Rock formation.

The Exploration License 413 will expire on September 17, 2009. The work commitments associated with this license have already been partly fulfilled (seismic work) and will be fulfilled in full by drilling one well. Approved areas of the Exploration License can be converted to a Production License if there is a significant discovery. The main risk to this play includes the possibility of encountering either poor or no development of reservoir quality facies in the Bear Rock formation.

According to Kodiak's September 2007 Corporate Presentation, additional exploration, including seismic, gravity, and geochemical studies are planned during the winter of 2007 and will be interpreted in early 2008, before the location of the first exploration well is selected. Kodiak is focusing on the pinchout at the top of the Basal Sand, which has been identified as a prospective trap for hydrocarbons, and in the case where Bear Rock leads overlie the Basal Sand pinchout, this may allow both prospects to be penetrated by one well, reducing the cost of exploration significantly.

The Company plans to commence drilling and testing three wells in the winter of 2008, followed by six development wells in 2009. The operations are expected to take less than one month. The expected cost to drill, complete, and evaluate a well in the Bear Rock formation is \$7 million, while the incremental cost to test the Precambrian would be an additional \$3.5 million. Primary production will be transported by truck in the winter and barge in the summer until the oil pipeline is built. At the point where the reservoir confirms there is sufficient oil to transport, the Company would then contract with a third party to construct a pipeline from Little Chicago to Norman Wells. The pipeline planning and construction is anticipated to take a further two years, resulting in full production commencing in early 2012 from all ten wells. In the best estimate case, initial production from these ten wells is anticipated to total 32,000 STB/d according to the Chapman 2007 report, and remaining constant for four years, and then gradually declining until the economic limit is reached. The transportation cost is approx. \$1.80/bbls from the field to Norman Wells, with an additional \$3.00/bbls from Norman Wells to Edmonton.

PROSPECTIVE RESOURCES

The prospective resources of the Bear Rock formation have been estimated by analogy to the Rainbow Keg River B pool, which is analogous to the target Bear Rock pool Chapman used for the Best Estimate case. Eight of the first wells drilled in the Rainbow Keg River B pool were used for the analogy. Only production to December 1983 was considered to avoid any influence from water or solvent injection that was implemented in the Rainbow pool after that time. Based on this analogy, the Best Estimate of the ultimate recovery is 11,271,000 Stock Tank Barrels of Oil (STB) per well. For the High Estimate case, six of the first wells drilled in the Rainbow Keg River B pool with the greatest recoveries were used. Based on this analogy, ultimate recovery has been estimated to be 13,218,000 STB per well. For the Low Estimate case, six of the first wells drilled in the Rainbow Keg River B pool with the smallest recoveries were used for analogy. Based on this, ultimate recovery has been estimated to be 9,513,000 STB per well. The estimated gross recoverable resource for Basal Cambrian Sand/Top Precambrian pools ranges from 6,000,000 STB (low) to 50,000,000 STB (high) with the Best Estimate being 18,000,000 STB, before consideration of risk. *No consideration has been given to infill drilling, enhanced recovery, or solution gas conservation, although these possibilities proved upside potential to this prospect.*

The operating costs of \$20M per year and \$2.00/STB have been utilized and estimated by Chapman for this area. These costs reflect the high cost of working in a remote area with difficult environmental conditions, which include discontinuous permafrost. Two dollars was added to the operating costs for the first six years of production to account for repaying the capital costs of pipeline construction.

RISK ANALYSIS

An assumed successful exploration and development model having parameters that are considered to be reasonable based on the information available is the 100% probability of success (POS) case. In establishing a probability of success, consideration has been given to both geological and commerciality factors. Chapman estimates the geological POS of this prospect to be 28% and has assigned a commerciality factor of 50%, which then yields an overall POS of 14%. The geological factors include the four main geological components of a petroleum system needed for commercial production, source rocks available to generate hydrocarbons, reservoir rocks to accumulate hydrocarbons, a stratigraphic or structural trapping mechanism with a seal to hold hydrocarbons, and a mechanism and proper geological timing allowing for hydrocarbons to migrate into the trap. The commerciality factor accounts for 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 period of life to recover all the costs associated with developing the property. *Chapman Petroleum Engineering Inc. estimated a Probability of Success of 14.0% for the arithmetic average of the three cases considered. Chapman's risk analysis indicates that less than a 1.0% Probability of Success (POS) is required for this prospect to earn a 15% rate of return.*

Summary of Company Prospective Resources and Economics
Before Income Tax
Chapman Petroleum Engineering August 1, 2007

Description	Light & Medium Oil MSTB		Cum. Cash Flow (BIT) – M\$	
	Gross	Net	Discounted at:	
			Un- discounted	Disc. at 10% / Year
BEFORE RISK				
Arithmetic Average				
Little Chicago (Bear Rock)	61,132	60,251	3,179,076	1,323,378
Little Chicago (Cambrian/ Top Precambrian)	14,154	13,944	517,208	247,655
Total	75,286	74,195	3,696,284	1,571,033
AFTER RISK				
Arithmetic Average				
Little Chicago (Bear Rock)	8,558	8,435	483,100	188,100
Little Chicago (Cambrian/ Top Precambrian)	1,415	1,394	63,548	22,037
Total	9,974	9,830	546,648	210,137

Chapman calculated the risk-adjusted cumulative cash flow before income tax on the two zones to be \$547M (\$5.88 per share) undiscounted and \$210M (\$2.25/share) discounted at 10%/year. (The oil prices are based on Edmonton Light Sweet crude. This results in a field price of \$60.03/STB in 2012, the first year of full production.)

SOFIA PROSPECT NEW MEXICO A COMPANY MAKING ASSET

Kodiak Energy has acquired 55,000 acres of land in the area of the Sofia and Spear Draw prospects and owns a 100% working interest. The Sofia structure is about 20 miles from the Bravo Dome field, one of the largest carbon dioxide fields in the world. Commercial volumes of CO₂ have been found in existing wells. In the Roxana State #1 well, the Yeso and Glorieta sands were perforated and tested over intervals of 1,880 – 1,892 feet and 1,652 – 1,745 feet, producing at rates of 27 and 45 Mscf/d, respectively, after initial stimulation. The Yeso sand was restimulated and the commingled zones were flowed at a reported rate of 650 Mscf/d with a flowing pressure of 3 psig on a 24 hour test. Produced gas was reported to be 97.3% CO₂. Reservoir parameters determined from log analysis indicate that the Glorieta sand may contain 8,633 MMscf gas-in-place in the 320-acre area, estimated to be the drainage area of a well. The structure contour map of the top of the Glorieta sand in the Sofia structure indicates that an area of 34 sections is structurally higher than the Roxana State #1 well. This indicates that the gas-in-place volume in the structure may be 587 BCF.

According to the September 2007 Corporate Presentation, Kodiak intends to conduct a seismic and gravity data survey within the next six months, followed by a drilling program, targeting the Glorieta structure at 1,300 feet, with an estimated CO₂ initial production rate (IP) of 780 Mcf/d, and targeting the Yeso Sand at approx. 1,800 feet, with estimated CO₂ IP of 500 Mcf/d. We expect initial production and cash flow from New Mexico in the very near-term future.

RECOMMENDATION

- It is always difficult to gauge how much upside is priced into a stock, but it appears Kodiak is undervalued. 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 10%/year, to be \$210,137,000 or \$2.26/share. (Industry is typically valued at approximately 6x cash flow.) In addition, we believe that Kodiak will generate near term cash flow from selling CO₂ from its Sofia prospect in New Mexico and grow shareholder value. 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 reaffirm our Speculative Buy/4 rating for Kodiak Energy and increase our 12 – 18 month target price to \$6.00 - \$8.00.

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.