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MANAGEMENT DISCUSSION OF CORE PROJECT AREAS

Since Cougar Energy, Inc.'s ("Cougar" or "Corporation") inception early this year, we have been working hard with the goal of adding value to the Corporation in logical steps. We are excited about our accomplishments and want to share an update with you by way of this discussion paper and go forward plan. This document has been in draft for several months as the projects continued to develop and mature, it was amended and delayed several times. Now that we have reached critical goals, we felt it was important to give you an update.

The Cougar core production properties are located in the Red Earth Creek area of northern Alberta and have developed into two definitive projects – mineral leases and properties within the CREnergy Agreement, namely the "CREnergy Project"; and external areas, namely "Cougar Trout Properties". Cougar also operates several other oil producing prospects, referred to as "Cougar Central Alberta Properties".

CREnergy PROJECT

History

Kodiak Energy, Inc. ("Kodiak") has a well developed relationship and track record with Aboriginal communities in northern Canada. This comes from a strong commitment by Kodiak management and personnel for open and honest communications and negotiations with the Aboriginal community leaders – a demonstrated respect for their culture, land and residents. Kodiak's reputation has also been recognized through negotiations with regulatory agencies, resulting in several of those agreements being used as templates with other companies and projects. As a result, our reputation has become known outside the far north of Canada.

CREnergy Oil and Gas Inc. (CREnergy) is the authorized agent for multiple First Nations communities. Some of these new First Nations communities are in various stages of ratification from the Federal Government of Canada to satisfy outstanding Treaty Land Entitlement (TLE) claims. Within these new First Nations are approximately 15 townships or 540 sections of mineral rights for development in Alberta.

In order to advance economic sustainability for First Nations communities that CREnergy represents, CREnergy searched for an oil and gas partner to develop certain oil and gas projects. Kodiak was one of the industry companies shortlisted in the search. Through discussions, meetings and negotiations since May 2008, CREnergy selected Kodiak as their joint venture partner to develop those resource projects. The joint venture agreement between CREnergy and Kodiak is the result of the negotiations.

To develop and strengthen the relationship with CREnergy, Kodiak formed a subsidiary company, Cougar Energy, Inc. As a result, Cougar is the operating entity for Kodiak in Western Canada.

Joint Venture Information and Summary

In December 2008, a new working relationship and joint venture agreement was established between CREnergy Oil and Gas Inc. (CREnergy) and Kodiak Energy, Inc. The Agreement was built on the foundation of respect for the First Nations communities, their Heritage, their Lands and the Environment. This is a strategic alliance. CREnergy has agreed to work with Kodiak to develop oil and gas reserves within the First Nations lands for the benefit of both CREnergy and Kodiak.

Joint Venture Agreement

Key priorities were established from the discussions between CREnergy and Kodiak:

- Use the royalties from the oil and gas production and work programs to develop a revenue stream. The long term purpose of the revenue is to support education, employment and development opportunities for the First Nations communities that Cougar is working with.
- Open communication at all stages of the oil and gas developments.
- Staged and managed growth, with regard to the interests of the communities during each step.
- Identify and source other development opportunities, using a similar model, either as a value add or on a joint venture basis.

Current Status

Cougar continues to actively work with CREnergy as they assist their First Nations communities to achieve the goal of independence through the Treaty Land Entitlement (TLE) claim with the Federal Government of Canada and the Province of Alberta. This process is nearing completion. We engage with CREnergy on a weekly basis through conference calls, monthly in person status meetings, and a continual dialogue to foster open communication.

COUGAR TROUT PROPERTIES

Cougar has CREnergy's active cooperation and sponsorship to identify various operators working in the adjacent lands to the CREnergy Project. Over the last 6 months, we negotiated commercial terms for area properties that have the greatest upside through normal maintenance and enhanced recovery programs, as well as future potential with additional drilling.

These negotiations culminated at the end of September and beginning of October 2009, with Cougar successfully acquiring the Trout Area producing properties from two private oil and gas companies. The Cougar operations, land and geological team have already high graded many of the properties within these acquisitions and foresee considerable potential to increase existing production in this first round of the proverbial "low hanging fruit". We anticipate operations to commence on these properties during the winter of 2009/10 consisting of maintenance and work over programs.

The following represents a summary of the producing and non-producing acquisitions completed over the previous 6 months:

A. Farmin (completed June 9, 2009)

1. 28 sections of land in the area of the CREnergy Project, northwest of Red Earth Creek, Alberta.
2. Cougar has 100% working interest (W.I.).
3. The mineral rights within the farmin agreement are currently held under several Alberta Crown 4-year initial term P&NG licenses expiring in September 2010 – the rights can be grouped and validated with a drilling program and subsequently continued under a 5 year intermediate term license.
4. Close to infrastructure – existing pipelines with capacity and all weather roads.
5. The wells would have a maximum depth of approximately 1,700 meters (5,577 feet) and potentially target the Gilwood, Slave Point, Wabamun, Gething, and Bluesky formations.
6. There is existing regional natural gas infrastructure and the target formations should contain sweet natural gas, which would reduce production and processing charges.

Historically in the area, the Gilwood formation, for example, has prolific gas wells with favorable net backs, even at current commodity prices. A Gilwood well within approximately 3.2 kms (2 mi.) of the farmin lands has produced over 9 billion cubic feet (Bcf) of natural gas. We acquired this working interest under a standard farm in agreement – pay 100% to earn 100% with a 3% gross overriding royalty (GOR) upon earning to the vendor.

A drilling program has been prepared for one initial well and two subsequent wells. Contingent upon financing, this program will be evaluated and funds allocated to the best net back between this gas project and the other oil developments. An 18 month payback criteria will be used prior to assigning capital to this project.

B. Private Company Production and Property Acquisition (completed October 1, 2009)

1. 2,560 gross acres of land within and adjacent to the CREnergy Project area lands.
2. 65% W.I. in 6 wells – 2 producing wells and 4 suspended wells.
3. Approximately 12 barrels per day (bbl/d) net production (20 bbl/d gross) of light oil.
4. Existing wells and reserves are located in the Kidney and Equisetum fields.
5. Production facilities.
6. Based on the April 1, 2009 engineering report provided by the private company, the estimated Proved and Probable oil reserves are CAD\$459,000 (Net Present Value – 10%).

Why was this important?

These properties are located within or adjacent to the CREnergy Project lands. This acquisition was important for us to solidify our position with CREnergy. After a review with many of the industry regulatory bodies, we have received informal praise for initiative and leadership taken for these activities.

C. Private Company Production and Property Acquisition (completed Sept. 30, 2009)

1. 7,100 gross acres of mineral rights with an average 85% W.I. (all continued through production, no expiries).
2. Approximately 125 bbl/d net production (170 bbl/d gross).
3. 11 pumping wellbores.
4. 8 single well batteries.
5. 3 water disposal wellbores with associated facilities.
6. 1 observation wellbore.
7. 21 suspended wellbores.
8. 2 multi well batteries with existing fluid handling capacity in excess of 2,500 bbl/day (oil, gas and water handling, and treating capability).
9. Approximately 38.7 km of pipelines (oil and produced water).
10. Approximately 13 km² of 3D seismic over the properties.
11. Approximately 84 km of 2D seismic over the properties and adjacent lands.
12. Based on the June 30, 2009 independent look ahead engineering report provided by the private company, the estimated Proved and Probable oil reserves are approximately CAD\$7,250,000 (Net Present Value – 10% discount).

The agreed purchase price was CAD\$6,000,000 with an initial payment of CAD\$1,000,000 at closing. The purchase price was negotiated at CAD\$52.50/bbl when oil is currently selling at CAD\$75.00+/bbl.

After operating costs, there is an average of CAD\$50.00 net back per barrel at current commodity prices. The cash portion of the acquisition cost was provided by Kodiak.

The majority of this acquisition is outside the boundary of the CREnergy Project lands. An estimated CAD\$7,250,000 in P1+P2 reserves is supported by an independent engineering report. The current surface facilities have a replacement value of CAD\$6,500,000 with a depreciated value of CAD\$1,000,000. The overall project has an estimated CAD\$50,000,000 in sunk costs to date including wells, facilities, pipelines, roads and power lines.

Why was this important?

This was a critical mass property acquisition as there is substantial infrastructure, resulting in lower overall operating costs, lower development costs and giving our schedule an enormous leap forward to achieve our goal of creating a 5,000 bbl/d company in a short period of time.

Without this kind of infrastructure, the initial production would have lower net backs due to higher trucking costs and regular non-producing periods due to weather. In lieu of this acquisition, a large amount of capital would have to be spent to bring facilities to this baseline, which we now have.

At current costs, the infrastructure replacement value would be substantially in excess of CAD\$6,000,000. This capital will now be able to be spent on the drill bit and development work – allowing for a more aggressive growth plan.

Additional details include:

- The existing pipeline systems provides direct access to sales of oil products, which results in the access to sales being in our control and not third party pipeline operator dependent.
- There are 2 batteries for the handling and treating of oil and the disposal of the produced water. The batteries are capable of handling an estimated 2,500 bbl/d with nominal refit costs.
- Many of the wells are piped into the batteries to lower the need for trucking, which is especially important for the higher water cut wells. These pipelines can be expanded to further lower operating costs.
- The produced water can be used for future water floods and has regularly shown to add substantial incremental production in the area.
- There are 37 wells, which 11 are currently producing – the 22 suspended wells have potential upside, as discussed below.
- Current production is approximately 125 bbl/d net of light sweet crude oil at an average operating cost of CAD\$20.00 to CAD\$25.00/bbl. We have completed a substantial amount of due diligence and are comfortable with the projected estimated CAD\$50.00 net backs from these properties at current commodity prices. This provides for a safety margin much lower than the lowest price seen in the recent recession.
- The reported cumulative production of light sweet crude oil from the Keg River and Granite Wash formations in this area is in excess of 6.6 million barrels of light sweet crude oil.
- The wells in this area previously produced up to an estimated total of 2,450 barrels of oil per day.
- The existing area field personnel willingly transferred to Cougar and their many years of hands-on field expertise has already added value.

This acquisition, combined with the smaller acquisition, provides a solid foundation for us to further enhance the Trout area properties, along with the existing operations and facilities to give substantial momentum to our plans. We believe this justifies the acquisition on that basis alone. We see great potential upside on these properties with additional capital commitments this winter 2009/10 for maintenance programs, as discussed next.

Upside in Maintenance Programs

We conducted a detailed review of the acquired properties' public domain petroleum records over the last 5 to 7 years with a comparison to other operators in the area. Our operations and geological teams foresee a considerable potential to increase production through normal maintenance activities. Some of these normal maintenance activities include and are not limited to:

- Acid wash of perforations
- Setting of bridge plugs to seal off water
- Waterflood programs
- Cleanouts
- Reperforating
- Repairs to wells with separated rods
- Pump optimization,
- Plug off water sources
- Horizontal drilling
- Use of Low damage drilling fluids

Since these existing technologies have proven to be successful in other similar maintenance programs in the area, we see a high potential to enhance the current production levels within this property.

COUGAR CENTRAL ALBERTA PROPERTIES

On April 16, 2009, Cougar entered into a farmout agreement with an existing working interest partner in the Lucy project. The partner was unable to satisfy the terms of the farmout agreement and, as a penalty for defaulting on the agreement, the Corporation accepted the transfer of 2 producing properties. The properties have an estimated average production of 15 bbl/d.

D. Production and Property Acquisition (due to penalty, completed October 1, 2009)

1. 2 producing oil properties in the Crossfield and Alexander fields in Central Alberta.
2. 100% W.I. in the Crossfield property – 1 producing well with single well battery and approximately 5 bbl/d net production.
3. 55% W.I. in the Alexander property (95% BPO, 55% APO) – 1 shut in oil well with a single well battery and 1 suspended well. Expected production of approximately 10 bbl/d net production upon restarting shut in oil well.
4. Based on the March 1, 2009 independent engineering report provided by the defaulting company, the estimated Proved and Probable oil reserves are CAD\$618,000 (Net Present Value – 10%).

SUMMARY

We have projected gross revenues of approximately CAD\$300,000 per month to Cougar after the initial maintenance programs are implemented in Q4 2009. Within approximately 6 months of implementing our proposed maintenance and workover programs, we are projecting an estimated production rate of 300 to 500 bbl/d, which will result in gross revenues in excess of CAD\$600,000 per month, and well on our way to the corporate goal of an estimated 5,000 bbl/d company on an accelerated basis.

As we continue to establish a presence and momentum in the area, we anticipate expanding our acquisition program to other area operators.

From this core area, we have the parallel paths to work from – exploration on these lands, additional acquisitions – all of which will complement our relationship with CREEnergy and the exploration and development of First Nations lands for oil and gas.