
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File number 333-38558

KODIAK ENERGY, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

65-0967706

(I.R.S. Employer Identification No.)

734 7th Avenue S.W. Calgary, AB

(Address of principal executive offices)

T2P 3P8

(Zip code)

(403) 262-8044

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock, \$0.001 par value

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 Or 15(d) of the Act. Yes No

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes No

The market value of the voting and non-voting common equity held by non-affiliates as of the last day of the most recently completed second fiscal quarter was \$133,000,000.

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of March 17, 2008: 106,692,498 Common Shares, \$0.001 par value.

Documents incorporated by reference: None.

KODIAK ENERGY INC.

Form 10-K
For the Fiscal Year Ended December 31, 2007

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

We were incorporated in Delaware on December 15, 1999. On December 22, 1999 we merged with Island Critical Care Corp., an inactive Florida corporation. The purpose of this merger was to effect a change in the domicile of the Florida Corporation to Delaware. Island Critical Care Corp. (a Florida corporation), was originally incorporated on March 15, 1996 under the name 9974 Holdings Inc., and subsequently changed its name from 9974 Holdings Inc. to Ontario Midwestern Railway Co. Inc. and finally the Florida Corporation's name was changed to Midwestern Railway Co. Inc. All three changes in name of the Florida Corporation were completed prior to its merger with the Delaware Corporation. On January 13, 2000, we merged with Island Critical Care Corporation, an Ontario Corporation. On December 27, 2004 we changed our name from Island Critical Care to Kodiak Energy, Inc ("Kodiak").

On February 5, 2003 the Company filed a petition for bankruptcy in the District of Prince Edward Island, Division No. 01-Prince Edward Island Court No. 1713, Estate No. 51-104460. The Company emerged from Bankruptcy pursuant to a court order on April 7, 2004 with no assets and no liabilities. Upon emergence from bankruptcy the company adopted Fresh Start Accounting pursuant to SOP 90-7 "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code."

BUSINESS

The Company is an exploration stage oil and gas company that devotes most of its efforts in exploring for natural resources. The Company has no oil and gas reserves or production.

The Company has three wholly-owned subsidiaries, Kodiak Petroleum ULC, an Alberta corporation; Kodiak Petroleum (Montana), Inc., a Delaware corporation, in which the Company is conducting its Montana and New Mexico activities and Kodiak Petroleum (Utah), Inc., a Delaware corporation.

Since 2005, the Company has been active in Canada and the United States in acquiring properties that are prospective for petroleum and natural gas and related hydrocarbons. The Company has or is participating in five areas in Canada and two in the United States. Following are descriptions of the Company's current projects.

Canada

Manyberries – Southeast Alberta

In 2006, the Corporation farmed into these lands which comprised nine sections (5,760 acres) of contiguous, undeveloped Petroleum and Natural Gas (P&NG) rights in southeast Alberta. The Corporation drilled and tested two wells and recompleted and tested one other well in March of 2006 on this property, which earned the Corporation a 66 2/3% interest in the lands. After further evaluation during 2007, the Corporation allowed the leases to expire and relinquished its interest in the project.

Province/Granlea – Southeast Alberta

The Corporation purchased a 50% working interest in two sections (1280 acres gross -640 net) of P&NG rights at a provincial land sale on September 22, 2005. In 2005, a 2D seismic program was completed on the property and in 2006, a well was drilled and completed; surface facilities were installed and a pipeline tie-in was completed. Production commenced in September, 2006. The well produced for a short period until excess water rates occurred and in October, 2006 the well was shut in. After the well bore was evaluated as having no current economic production potential, the well was abandoned. The Corporation intends to sell the surface facilities and consider additional internal geological reviews of the prospect to determine if any further drilling is warranted.

Fort McMurray – Northern Alberta

The Corporation, jointly with two partners, acquired two blocks of P&NG licenses over sixty-four sections of land near Fort McMurray in northeastern Alberta. The licenses are for all P&NG Rights from the base of the Woodbend formation to fifteen meters into the top of the Precambrian subject to a 2.5% gross overriding royalty reserved for the Seller in the subject lands. The Corporation had an initial 50 % working interest, but in 2007 increased it to 100% by acquiring the other partners' interests. A farmout to have a seismic and drilling program carried out for 2008 may be considered or the Corporation may dispose of its interest.

Lucy – Northern British Columbia

The Corporation initially had a 10% working interest in the Lucy/Highwood lands (BC P&NG Lease #44104) consisting of approximately three square miles (799 hectares) located in the North Yoyo Otter Park shale basin in northeastern British Columbia. A well was drilled in December 2006. After some difficult drilling conditions, the lower zones in this well were abandoned.

The Corporation recently initiated an independent operations drilling program on the Lucy prospect and operated the drilling of Kodiak et al Gunnell Creek a-79-A/94-P-4 with the Corporation having an interest of 57%. After penetrating and testing the Keg River zone, which proved unsuccessful, attention has shifted to the uphole Muskwa and Evie shale gas zones. The Muskwa formation had elevated gas readings and well logs indicate a pay zone of up to sixty meters. Based on these results, Kodiak has increased its interest in the property to 80% and will seek approval for a continuation of the lease. Further evaluation work will be undertaken during the next drilling season. Other major industry participants are acquiring large land positions in this part of British Columbia which are prospective for this type of play.

Little Chicago – Northwest Territories

The Corporation is the operator of approximately 200,000 acres under an original Farm-out agreement with the two 50% working interest owners of the 200,000 acre Exploration License 413 (“EL 413”) in the Mackenzie River Valley centered along the planned Mackenzie Valley Pipeline. The Corporation reprocessed 50 km of existing seismic data in Q4 of 2006 and during the 2006-07 winter work season, the Corporation expended approximately \$5,500,000 to acquire 2D seismic data on the farm-out Lands, thus earning a 12.5% working interest in the property. In September, 2007, the Corporation acquired Thunder River Energy, Inc.’s (“Thunder”) 43.75% in the property giving the Corporation a 56.25% interest in EL 413. A 2007-08 seismic program is being undertaken on the property with tentative plans for drilling in 2008-09.

United States

New Mexico

Through its acquisition of Thunder, the Corporation has acquired a 100% interest in approximately 55,000 acres of property located in northeast New Mexico. Recent land acquisitions have increased the Corporation’s land position to 57,000 acres and offers tendered to private holders of additional rights, if successful, will further increase the Corporation’s land position by approximately 25%. These lands have potential for natural gas and CO₂ and oil and helium resources at shallow depths. The Corporation is currently conducting a seismic program and a 3-4 well drilling program which includes a re-entry of the existing Roxana well at Sofia and drilling test wells on the other Sofia and Spear Draw anticlines. Depending on the success of the seismic and drilling programs and financing, a major development of this project could be commenced later in 2008.

Montana

During 2006, the Corporation, under a joint venture farmout agreement, expended \$540,000 on a seismic program and a 2-3 well drilling program to earn a 50% non-operating working interest in the wells and well spacing, as well as the right to participate on a 50% basis going forward on this prospect in the Hill County area of Montana. The Operator of the project has 100,000 contiguous undeveloped acres of P&NG rights in the area, as well as some excess capacity in facilities and pipelines. Two wells were drilled in the third quarter of 2006; one is cased for subsequent evaluation of the multiple zones found and one was abandoned. A third well is licensed and will be drilled depending upon the results of testing on the first well.

ITEM 1A. RISK FACTORS

Going Concern Uncertainty

There is uncertainty that the Company will continue as a going concern, which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has not generated positive cash flow since inception and has incurred operating losses and will need additional working capital for its future planned activities. The recent financing, described in Note 11 to the consolidated financial statements, will provide sufficient working capital to fund the Company’s operations until mid 2008 when additional financing will be required unless sufficient cash flow is being obtained from the Company’s properties that comprise its near term capital programs. The success of these programs is yet to be determined. These conditions raise doubt about the Company’s ability to continue as a going concern. Continuation of the Company as a going concern is dependent upon obtaining sufficient working capital to finance ongoing operations. The Company’s strategy to address this uncertainty, includes additional equity and debt financing; however, there are no assurances that any such financings can be obtained on favorable terms, if at all. These financial statements do not reflect the adjustments or reclassification of assets and liabilities that would be necessary if the Company were unable to continue its operations.

The Oil & Gas Industry is Highly Competitive

The oil & gas industry is highly competitive. We compete with oil and natural gas companies and other individual producers and operators, many of which have longer operating histories and substantially greater financial and other resources than we do. We compete with companies in other industries supplying energy, fuel and other needs to consumers. Many of these companies not only explore for and produce crude oil and natural gas, but also carry on refining operations and market petroleum and other products on a worldwide basis. Our larger competitors, by reason of their size and relative financial strength, can more easily access capital markets than we can and may enjoy a competitive advantage in the recruitment of qualified personnel. They may be able to absorb the burden of any changes in laws and regulation in the jurisdictions in which we do business and handle longer periods of reduced prices of gas and oil more easily than we can. Our competitors may be able to pay more for productive oil and natural gas properties and may be able to define, evaluate, bid for and purchase a greater number of properties and prospects than we can. Our ability to acquire additional properties in the future will depend upon our ability to conduct efficient operations, evaluate and select suitable properties, implement advanced technologies and consummate transactions in a highly competitive environment.

Government and Environmental Regulation

Our business is governed by numerous laws and regulations at various levels of government. These laws and regulations govern the operation and maintenance of our facilities, the discharge of materials into the environment and other environmental protection issues. The laws and regulations may, among other potential consequences, require that we acquire permits before commencing drilling, restrict the substances that can be released into the environment with drilling and production activities, limit or prohibit drilling activities on protected areas such as wetlands or wilderness areas, require that reclamation measures be taken to prevent pollution from former operations, require remedial measures to mitigate pollution from former operations, such as plugging abandoned wells and remediation of contaminated soil and groundwater, and require remedial measures to be taken with respect to property designated as a contaminated site.

Under these laws and regulations, we could be liable for personal injury, clean-up costs and other environmental and property damages, as well as administrative, civil and criminal penalties. We maintain limited insurance coverage for sudden and accidental environmental damages as well as environmental damage that occurs over time. However, we do not believe that insurance coverage for the full potential liability of environmental damages is available at a reasonable cost. Accordingly, we could be liable, or could be required to cease production on properties, if environmental damage occurs.

The costs of complying with environmental laws and regulations in the future may harm our business. Furthermore, future changes in environmental laws and regulations could occur that may result in stricter standards and enforcement, larger fines and liability, and increased capital expenditures and operating costs, any of which could have a material adverse effect on our financial condition or results of operations.

The Successful Implementation of Our Business Plan is Subject to Risks Inherent in The Oil & Gas Business

Our oil and gas operations are subject to the economic risks typically associated with exploration, development and production activities, including the necessity of significant expenditures to locate and acquire properties and to drill exploratory wells. In addition, the cost and timing of drilling, completing and operating wells is often uncertain. In conducting exploration and development activities, the presence of unanticipated pressure or irregularities in formations, miscalculations or accidents may cause our exploration, development and production activities to be unsuccessful. This could result in a total loss of our investment in a particular property. If exploration efforts are unsuccessful in establishing proved reserves and exploration activities cease, the amounts accumulated as unproved costs will be charged against earnings as impairments.

We Expect Our Operating Expenses to Increase Substantially in The Future and May Need to Raise Additional Funds

We have a history of net losses and expect that our operating expenses will continue to increase over the next 12 months as we continue to implement our business plan. In addition, we may experience a material decrease in liquidity due to unforeseen expenses or other events and uncertainties. As a result, we may need to raise additional funds, and such funds may not be available on favourable terms, if at all. If we cannot raise funds on acceptable terms, we may not be able to execute on our business plan, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements. This may seriously harm our business, financial condition and results of operations.

We are An Exploration Stage Company Implementing a New Business Plan

We are an exploration stage company with only a limited operating history upon which to base an evaluation of our current business and future prospects, and we have just begun to implement our business plan. Since our inception, we have suffered recurring losses from operations and have been dependent on new investment to sustain our operations. During the years ended December 31, 2007, 2006 and 2005, we reported losses of \$2,775,663, 2,867,374 and 1,133,790 respectively. In addition, our consolidated financial statements for the years ended December 31, 2007, 2006 and 2005 contained a going concern qualification and we cannot give any assurances that we can achieve profits from operations.

Our Ability to Produce Sufficient Quantities of Oil & Gas from Our Properties May Be Adversely Affected by a Number of Factors Outside of Our Control

The business of exploring for and producing oil and gas involves a substantial risk of investment loss. Drilling oil wells involves the risk that the wells may be unproductive or that, although productive, that the wells may not produce oil or gas in economic quantities. Other hazards, such as unusual or unexpected geological formations, pressures, fires, blowouts, loss of circulation of drilling fluids or other conditions may substantially delay or prevent completion of any well. Adverse weather conditions can also hinder drilling operations. A productive well may become uneconomic due to pressure depletion, water encroachment, mechanical difficulties, etc, which impair or prevent the production of oil and/or gas from the well.

There can be no assurance that oil and gas will be produced from the properties in which we have interests. In addition, the marketability of any oil and gas that we acquire or discover may be influenced by numerous factors beyond our control. These factors include the proximity and capacity of oil and gas pipelines and processing equipment, market fluctuations of prices, taxes, royalties, land tenure, allowable production and environmental protection. We cannot predict how these factors may affect our business.

In addition, the success of our business is dependent upon the efforts of various third parties that we do not control. We rely upon various companies to assist us in identifying desirable oil and gas prospects to acquire and to provide us with technical assistance and services. We also rely upon the services of geologists, geophysicists, chemists, engineers and other scientists to explore and analyze oil prospects to determine a method in which the oil prospects may be developed in a cost-effective manner. In addition, we rely upon the owners and operators of oil drilling equipment to drill and develop our prospects to production. Although we have developed relationships with a number of third-party service providers, we cannot assure that we will be able to continue to rely on such persons. If any of these relationships with third-party service providers are terminated or are unavailable on commercially acceptable terms, we may not be able to execute our business plan.

Market Fluctuations in the Prices of Oil & Gas Could Adversely Affect Our Business

Prices for oil and natural gas tend to fluctuate significantly in response to factors beyond our control. These factors include, but are not limited to actions of the Organization of Petroleum Exporting Countries and its maintenance of production constraints, the U.S. economic environment, weather conditions, the availability of alternate fuel sources, transportation interruption, the impact of drilling levels on crude oil and natural gas supply, and the environmental and access issues that could limit future drilling activities for the industry.

Changes in commodity prices may significantly affect our capital resources, liquidity and expected operating results. Price changes directly affect revenues and can indirectly impact expected production by changing the amount of funds available to reinvest in exploration and development activities. Reductions in oil and gas prices not only reduce revenues and profits, but could also reduce the quantities of reserves that are commercially recoverable. Significant declines in prices could result in charges to earnings due to impairment.

Changes in commodity prices may also significantly affect our ability to estimate the value of producing properties for acquisition and divestiture and often cause disruption in the market for oil producing properties, as buyers and sellers have difficulty agreeing on the value of the properties. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation of projects. We expect that commodity prices will continue to fluctuate significantly in the future.

Risks of Penny Stock Investing

The Company's common stock is considered to be a "penny stock" because it meets one or more of the definitions in the Exchange Act Rule 3a51-1, a Rule made effective on July 15, 1992. These include but are not limited to the following: (i) the stock trades at a price less than five dollars (\$5.00) per share; (ii) it is NOT traded on a "recognized" national exchange; (iii) it is NOT quoted on the NASD's automated quotation system (NASDAQ), or even if so, has a price less than five dollars (\$5.00) per share; OR (iv) is issued by a company with net tangible assets less than \$2,000,000, if in business more than three years continuously, or \$5,000,000, if in business less than a continuous three years, or with average revenues of less than \$6,000,000 for the past three years. The principal result or effect of being designated a "penny stock" is that securities broker-dealers cannot recommend the stock but must trade in it on an unsolicited basis.

Risks Related to Broker-Dealer Requirements Involving Penny Stocks / Risks Affecting Trading and Liquidity

Section 15(g) of the Securities Exchange Act of 1934, as amended, and Rule 15g-2 promulgated there under by the Commission require broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account. These rules may have the effect of reducing the level of trading activity in the secondary market, if and when one develops.

Potential investors in the Company's common stock are urged to obtain and read such disclosure carefully before purchasing any shares that are deemed to be "penny stock." Moreover, Commission Rule 15g-9 requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer to (i) obtain from the investor information concerning his or her financial situation, investment experience and investment objectives; (ii) reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives. Pursuant to the Penny Stock Reform Act of 1990, broker-dealers are further obligated to provide customers with monthly account statements. Compliance with the foregoing requirements may make it more difficult for investors in the Company's stock to resell their shares to third parties or to otherwise dispose of them in the market or otherwise.

ITEM 1B. UNRESOLVED STAFF COMMENTS

On November 13, 2007, the Company filed with the Commission an SB-2 registration statement pertaining to the common shares of the Company issued in connection with the private placement financings in September, October and November, 2007 and the September, 2007 Thunder property acquisition. The Commission sent a letter to the Company dated December 12, 2007, a copy of which is included as Exhibit 10.2 to this Form 10-K, and in which was set out certain comments and questions relating to the SB-2 registration statement to which the Company must respond. The Commission's letter also set out comments and questions relating to the Company's December 31, 2006 Annual Form 10-KSB and Quarterly Forms 10-QSB for the periods ended March 31, 2007 and June 30, 2007 to which the Company must also respond. The Company is preparing its response and will submit it shortly to the Commission. Certain of the Commission's comments requested additional clarification and disclosure in the Company's aforementioned annual and interim financial statements. This December 31, 2007 Form 10-K has been prepared taking into account the Commission's comments and management's planned response. At this time, the Company cannot determine if there are any comments that will be controversial or unresolvable.

ITEM 2. DESCRIPTION OF PROPERTY

Office Property

The offices of Kodiak Energy, Inc. are located at 734 7th Avenue S.W. Suite 460 Calgary, AB, T2P 3P8. We rent offices on a month by month basis. The current monthly rent is \$10,500 CAD.

Oil and Gas Properties

The Corporation currently has four properties in Canada and two in the United States comprising undeveloped land holdings on which it is carrying out exploration activities. A description of each property and its current activities follows:

Canada

Manyberries – Southeast Alberta

In 2006, the Corporation farmed into these lands which comprised nine sections (5,760 acres) of contiguous, undeveloped Petroleum and Natural Gas (P&NG) rights in southeast Alberta. The Corporation drilled two wells and recompleted one other well in March of 2006 on this property, which earned the Corporation a 66 2/3% interest in the lands. After further evaluation during 2007, the Corporation allowed the leases to expire and relinquished its interest in the project.

Province/Granlea – Southeast Alberta

The Corporation purchased a 50% working interest in two sections (1280 acres gross -640 net) of P&NG rights at a provincial land sale on September 22, 2005. In 2005, a 2D seismic program was completed on the property and in 2006, a well was drilled and completed; surface facilities were installed and a pipeline tie-in was completed. Production commenced in September, 2006. The well produced for a short period until excess water rates occurred and in October, 2006 the well was shut in. After the well bore was evaluated as having no current economic production potential, the well was abandoned. The Corporation intends to sell the surface facilities and consider additional internal geological reviews of the prospect to determine if any further drilling is warranted.

Fort McMurray – Northern Alberta

The Corporation, jointly with two partners, acquired two blocks of P&NG licenses over sixty-four sections of land near Fort McMurray in northeastern Alberta. The licenses are for all P&NG Rights from the base of the Woodbend formation to fifteen meters into the top of the Precambrian subject to a 2.5% gross overriding royalty reserved for the Seller in the subject lands. The Corporation had an initial 50 % working interest, but in 2007 increased it to 100% by acquiring the other partners' interests. A farmout to have a seismic and drilling program carried out for 2008 may be considered or the Corporation may dispose of its interest.

Lucy – Northern British Columbia

The Corporation initially had a 10% working interest in the Lucy/Highwood lands (BC P&NG Lease #44104) consisting of approximately three square miles (799 hectares) located in the North Yoyo Otter Park shale basin in northeastern British Columbia. A well was drilled in December 2006. After some difficult drilling conditions, the lower zones in this well were abandoned.

The Corporation recently initiated an independent operations drilling program on the Lucy prospect and operated the drilling of Kodiak et al Gunnell Creek a-79-A/94-P-4 with the Corporation having an interest of 57%. After penetrating and testing the Keg River zone, which proved unsuccessful, attention has shifted to the uphole Muskwa and Evie shale gas zones. The Muskwa formation had elevated gas readings and well logs indicate a pay zone of up to sixty meters. Based on these results, Kodiak has increased its interest in the property to 80% and will seek approval for a continuation of the lease. Further evaluation work will be undertaken during the next drilling season. Other major industry participants are acquiring large land positions in this part of British Columbia which are prospective for this type of play.

Little Chicago – Northwest Territories

The Corporation is the operator of approximately 200,000 acres under an original Farm-out agreement with the two 50% working interest owners of the 200,000 acre Exploration License 413 ("EL 413") in the Mackenzie River Valley centered along the planned Mackenzie Valley Pipeline. The Corporation reprocessed 50 km of existing seismic data in Q4 of 2006 and during the 2006-07 winter work season, the Corporation expended approximately \$5,500,000 to acquire 2D seismic data on the farm-out Lands, thus earning a 12.5% working interest in the property. In September, 2007, the Corporation acquired Thunder River Energy, Inc.'s ("Thunder") 43.75% in the property giving the Corporation a 55.75% interest in EL 413. A 2007-08 seismic program is being undertaken on the property with tentative plans for drilling in 2008-09.

United States

New Mexico

Through its acquisition of Thunder, the Corporation has acquired a 100% interest in 55,000 acres of property located in northeast New Mexico. Additional land acquisitions have increased the Corporation's land position to 57,000 acres and offers tendered to private holders of additional rights, if successful, will further increase the Corporation's land position by approximately 25%. These lands have potential for natural gas and CO2 and oil and helium resources at shallow depths. The Corporation is currently conducting a seismic program and a 3-4 well drilling program which includes a re-entry of the existing Roxana well at Sofia and drilling test wells on the other Sofia and Spear Draw anticlines. Depending on the success of the seismic and drilling programs and financing, a major development of this project could be commenced later in 2008.

Montana

During 2006, the Corporation, under a joint venture farmout agreement, expended \$540,000 on a seismic program and a 2-3 well drilling program to earn a 50% non-operating working interest in the wells and well spacing, as well as the right to participate on a 50% basis going forward on this prospect in the Hill County area of Montana. The Operator of the project has 100,000 contiguous undeveloped acres of P&NG rights in the area, as well as some excess capacity in facilities and pipelines. Two wells were drilled in the third quarter of 2006; one is cased for subsequent evaluation of the multiple zones found and one was abandoned. A third well is licensed and will be drilled depending upon the results of testing on the first well.

Land Acreage

Following is a summary of the Corporation's land holdings in gross and net hectares and acres:

OIL AND NATURAL GAS RIGHTS as of December 31, 2007

| | Gross Hectares | Net Hectares | Gross Acres | Net Acres |
|--|----------------|--------------|-------------|-----------|
| Developed Acreage | Nil | Nil | Nil | Nil |
| Undeveloped Acreage | | | | |
| South East Alberta – Granlea | 518 | 259 | 1,280 | 640 |
| Northern Alberta - Fort McMurray | 16,575 | 16,575 | 40,958 | 40,958 |
| Northeast British Columbia – Lucy | 777 | 622 | 1,920 | 1,536 |
| Northwest Territories – Little Chicago | 80,464 | 45,261 | 201,160 | 113,153 |
| Total Canada | 98,334 | 62,717 | 245,318 | 156,287 |
| Montana | 777 | 389 | 1,920 | 960 |
| New Mexico | 20,896 | 20,896 | 52,240 | 52,240 |
| Total United States | 21,673 | 21,285 | 54,160 | 53,200 |
| Grand Total | 120,007 | 84,002 | 299,478 | 209,487 |

A developed acre is considered to mean those acres spaced or assignable to productive wells, a gross acre is an acre in which a working interest is owned, and a net acre is the result that is obtained when fractional ownership working interest is multiplied by gross acres. The number of net acres is the sum of the fractional working interests owned in gross acres expressed as whole numbers and fractions thereof.

Undeveloped acreage is considered to be those lease acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil or natural gas, regardless of whether or not that acreage contains proved reserves, but does not include undrilled acreage held by production under the terms of a lease. As is customary in the oil and gas industry, we can generally retain our interest in undeveloped acreage by drilling activity that establishes commercial production sufficient to maintain the leases or by paying delay rentals during the remaining primary term of such a lease. The oil and natural gas leases in which we have an interest are for varying primary terms, and if production continues from our developed lease acreage beyond the primary term, we are entitled to hold the lease for as long as oil or natural gas is produced.

Employees

Up to December 31, 2007, the Company utilized full-time and/or part-time consultants as its personnel to conduct its business and carry out its business plan and as at that date, four full-time and eight part-time consultants were engaged by the Company. As at January 1, 2008, three of the Company's full-time consultants were hired as full-time employees.

ITEM 3. LEGAL PROCEEDINGS.

The Company is not presently a party to any litigation. There is a threatened litigation matter which comprises a potential claim by a partner against the Company regarding the terms of the EL 413 North West Territory farm-out agreement entered into in 2006. The potential outcome and loss to the Company is unknown; however, in the opinion of management, this matter is not expected to result in any material adverse impact on the Company's financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On August 14, 2007, Kodiak Energy held its annual shareholders' meeting. At the meeting the shareholders voted in favor of two proposals put to them, listed below.

The shareholders elected the following persons to serve as directors until the next annual meeting of shareholders; Mark Hlady, William Tighe, Glenn Watt, Peter Schriber and Marvin Jones. The result of the vote was 53.4% For; 0% Against and 46% Abstain

The shareholders approved the stock option plan of Kodiak Energy, Inc. and specifically an increase in the number of shares available for grant under the plan from 4,300,000 common shares to 8,000,000 common shares. The result of the vote was 43.4% For; .6% Against and 56% Abstain

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

The Company's common shares are currently quoted on the Nasdaq Over the Counter Bulletin Board under the symbol KDKN. On December 24, 2007, the Company's common shares commenced trading on the Toronto Venture Stock Exchange in Canada under the symbol KDK. Trading ranges of the Company's common shares by quarter for fiscal 2007, 2006 and 2005 were as follows:

| | Nasdaq Over the Counter (U. S. Dollars) | | Toronto Venture Exchange (Canadian Dollars) | |
|------------------------------|---|----------|---|---------|
| | High | Low | High | Low |
| Year ended December 31, 2007 | | | | |
| First Quarter | \$ 2.00 | \$ 1.10 | \$ - | \$ - |
| Second Quarter | \$ 4.47 | \$ 1.80 | \$ - | \$ - |
| Third Quarter | \$ 3.69 | \$ 2.07 | \$ - | \$ - |
| Fourth Quarter | \$ 3.69 | \$ 2.15 | \$ 2.45 | \$ 2.27 |
| Year ended December 31, 2006 | | | | |
| First Quarter | \$ 1.20 | \$ 0.375 | \$ - | \$ - |
| Second Quarter | \$ 2.50 | \$ 1.15 | \$ - | \$ - |
| Third Quarter | \$ 2.30 | \$ 1.14 | \$ - | \$ - |
| Fourth Quarter | \$ 2.05 | \$ 1.06 | \$ - | \$ - |
| Year ended December 31, 2005 | | | | |
| First Quarter | \$ 1.01 | \$ 0.35 | \$ - | \$ - |
| Second Quarter | \$ 1.01 | \$ 0.75 | \$ - | \$ - |
| Third Quarter | \$ 2.00 | \$ 0.80 | \$ - | \$ - |
| Fourth Quarter | \$ 1.85 | \$ 0.65 | \$ - | \$ - |

The Company has not paid cash dividends since inception. The Company intends to retain all of its earnings, if any, for use in its business and does not anticipate paying any cash dividends in the foreseeable future. The payment of any future dividends will be at the discretion of the board of directors and will depend upon a number of factors, including future earnings, the success of the company's business activities, capital requirements, the general financial condition and future prospects of the company, general business conditions and such other factors as the board of directors may deem relevant.

EQUITY COMPENSATION PLAN INFORMATION

On January 4, 2006, our board of directors adopted a stock option plan. This plan was approved by the shareholders of the Company at the annual meetings held on July 18, 2006 and August 14, 2007 in Calgary Alberta. The plan originally authorized a total of 4,300,000 common shares to be granted as stock option awards under the plan. At the 2007 annual meeting, shareholders approved an increase in the authorized total to 8,000,000 common shares. The Board may not grant to any one holder options to purchase more than 500,000 shares of common stock or a number in excess of 2% of the outstanding common stock in any one calendar year in the aggregate under the plan. As of December 31, 2007, no options had been exercised.

RECENT SALES OF UNREGISTERED SECURITIES

On February 20, 2007, the Company closed a private placement for 420,000 units at a price of \$1.25 per unit for gross proceeds of \$525,000 (\$475,000, net of share issue costs). Each unit entitled the subscriber to one common share of the Company and one warrant. Each warrant entitles the warrant holder to exchange one warrant for one common share at a price of \$1.50 until February 20, 2009. These common shares were issued pursuant to Regulation S ("Regulation S") under the Securities Act of 1933, as amended (the "1933 Act").

On May 10, 2007, the Company closed a private placement for 2,447,900 units at a price of \$1.25 per unit for gross proceeds of \$3,059,875 (\$2,779,875, net of share issue costs). Each unit entitled the subscriber to one common share of the Company and one warrant. Each warrant entitles the warrant holder to exchange one warrant for one common share at a price of \$1.50 until May 10, 2009. These common shares were issued pursuant to Regulation S ("Regulation S") under the Securities Act of 1933, as amended (the "1933 Act").

On September 28, 2007, the Company closed a brokered private placement offering for an aggregate of 4,622,670 common shares for aggregate gross proceeds of \$12,490,010 (\$11,373,255, net of share issue costs). Of the total number of shares, 2,756,000 were sold at a purchase price of \$2.50 per share for gross proceeds of \$6,890,000 and 1,866,670 were sold at a purchase price of \$3.00 for gross proceeds of \$5,600,010. The shares sold at \$3.00 were sold on the basis that the Company would provide the purchaser a Canadian tax flow through advantage. In connection with the offering, the broker was granted warrants to purchase, until March 28, 2009, (i) 220,480 common shares of the Company at a price of \$2.50 per share and (ii) 149,334 common shares of the Company at a price of \$3.00 per share. These common shares were issued pursuant to Regulation S ("Regulation S") under the Securities Act of 1933, as amended (the "1933 Act").

On September 28, 2007, the Company issued 7,000,000 common shares valued at \$14,000,000 (\$2.00 per share) as partial consideration for the acquisition of certain undeveloped oil and gas properties in Canada and the United States. The Company also committed to issue up to an additional 11,000,000 common shares of the Company upon the achievement of certain milestones in connection with the acquired properties as set out in Note 7 of the Company's Consolidated Financial Statements appearing elsewhere in this Form 10-K. These common shares were issued pursuant to Regulation S ("Regulation S") under the Securities Act of 1933, as amended (the "1933 Act").

On October 3, 2007, the Company closed a second portion of the brokered private placement ("the Offering") of common shares and flow through common shares that closed on September 28, 2007. Pursuant to the Offering, the Company issued an additional 335,000 flow through common shares at a purchase price of \$3.00 per share for total gross proceeds of \$1,005,000 and granted a warrant to the broker to purchase, until April 3, 2009, 26,800 common shares at a purchase price of \$3.00 per share. The common shares were issued pursuant to Regulation S ("Regulation S") under the Securities Act of 1933, as amended (the "1933 Act").

On October 30, 2007 and November 1, 2007, the Company closed additional brokered private placement financings aggregating 1,450,000 common shares and flow through common shares for aggregate gross proceeds of \$3,650,000. Pursuant to those private placements, the Company issued 1,400,000 common shares at a purchase price of \$2.50 per common share for proceeds of \$3,500,000 and 50,000 flow through common shares at a purchase price of \$3.00 per share for proceeds of \$150,000 and granted warrants to the broker to purchase, until April 30, 2009, 80,000 common shares at a purchase price of \$2.50 per share and 4,000 common shares at a purchase price of \$3.00 per share and, until May 1, 2009, 32,000 common share at a purchase price of \$2.50 per share. The common shares were issued pursuant to Regulation S ("Regulation S") under the Securities Act of 1933, as amended (the "1933 Act").

As at December 31, 2007 there were 106,692,498 shares of common stock issued and outstanding and there were approximately 10,000 holders of record of our common stock.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain selected consolidated financial data and should be read in conjunction with the Company's consolidated financial statements and related notes thereto appearing elsewhere in this Form 10-K:

| For the years ended December 31 | 2007 | 2006 | 2005 |
|-------------------------------------|---------------|-----------|-----------|
| Income during the evaluation period | \$ 225 | 27,134 | Nil |
| Operating Expense | \$ 20,543 | 13,572 | Nil |
| Net Loss | \$ 2,775,663 | 2,867,374 | 1,133,790 |
| Net Loss per share | | | |
| Basic | \$ 0.03 | 0.04 | 0.60 |
| Diluted | \$ 0.03 | 0.04 | 0.60 |
| Cash Dividends | \$ Nil | Nil | Nil |
| Capital Expenditures | | | |
| Canada | \$ 16,471,817 | 2,002,915 | 134,139 |
| United States | \$ 6,458,511 | 432,835 | 132,000 |
| As at December 31 | | | |
| Total Assets | \$ 34,690,768 | 2,707,075 | 556,330 |
| Total Long term Liabilities | \$ 319,769 | 90,911 | Nil |
| Share Capital | \$ 39,250,084 | 5,841,051 | 1,536,672 |
| Deficit | \$ 6,839,439 | 4,063,776 | 1,196,403 |
| Comprehensive (Gain) or Loss | \$ 342,201 | 20,214 | 7,540 |

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Forward Looking Statements

From time to time, we or our representatives have made or may make forward-looking statements, orally or in writing. Such forward-looking statements may be included in, but not limited to, press releases, oral statements made with the approval of an authorized executive officer or in various filings made by us with the Securities and Exchange Commission. Words or phrases "will likely result", "are expected to", "will continue", "is anticipated", "estimate", "project or projected", or similar expressions are intended to identify "forward-looking statements". Such statements are qualified in their entirety by reference to and are accompanied by the above discussion of certain important factors that could cause actual results to differ materially from such forward-looking statements.

Management is currently unaware of any trends or conditions other than those previously mentioned in this management's discussion and analysis that could have a material adverse effect on the Company's consolidated financial position, future results of operations, or liquidity. However, investors should also be aware of factors that could have a negative impact on the Company's prospects and the consistency of progress in the areas of revenue generation, liquidity, and generation of capital resources. These include: (i) variations in revenue, (ii) possible inability to attract investors for its equity securities or otherwise raise adequate funds from any source should the Company seek to do so, (iii) increased governmental regulation, (iv) increased competition, (v) unfavorable outcomes to litigation involving the Company or to which the Company may become a party in the future and, (vi) a very competitive and rapidly changing operating environment. The risks identified here are not all inclusive. New risk factors emerge from time to time and it is not possible for management to predict all of such risk factors, nor can it assess the impact of all such risk factors on the Company's business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results.

The financial information set forth in the following discussion should be read with the financial statements of Kodiak Energy, Inc. included elsewhere herein.

Plan of Operation

The Corporation is a petroleum and natural gas exploration and development company whose primary objective is to identify, acquire and develop working interests in underdeveloped petroleum and natural gas prospects. We are focused on prospects located in Canada and the United States. The prospects we hold are generally under leases and include partial and full working interests. In some instances, Kodiak is the operator and in others it is obligated to perform certain seismic and exploratory well drilling for its interests. In some instances, additional seismic and drilling activity will result in additional working interests or is required to maintain the current percentage interests. The prospects are subject to varying royalties due to the state, province or federal governments and, in some instances, to the other royalty owners in the prospect.

The Corporation plans to engage in seismic data collection and well drilling programs on a number of prospects in which it has an interest or right to acquire percentage interests over the next two years. Drilling programs will be conducted where the seismic data supports the effort and expense and further drilling will be based on the results of initially drilled wells. A number of the prospects are located in the vicinity of petroleum and natural gas infrastructure, most importantly the ability to tie-in to existing or planned pipelines. This will be important in lowering the overall cost of development and selling any natural resources located in a prospect.

The Corporation currently has no petroleum or natural gas reserves or production.

The Corporation has carried out the following activities during the period from 2005 until December 31, 2007, and during the next twelve months, the Corporation plans to aggressively pursue the development of its asset base.

Canada

Manyberries – Southeast Alberta

In 2006, the Corporation farmed into these lands which comprised nine sections (5,760 acres) of contiguous, undeveloped Petroleum and Natural Gas (P&NG) rights in southeast Alberta. The Corporation drilled two wells and recompleted one other well in March of 2006 on this property, which earned the Corporation a 66 2/3% interest in the lands. After further evaluation during 2007, the Corporation allowed the leases to expire and relinquished its interest in the project.

Province/Granlea – Southeast Alberta

The Corporation purchased a 50% working interest in two sections (1280 acres gross -640 net) of P&NG rights at a provincial land sale on September 22, 2005. In 2005, a 2D seismic program was completed on the property and in 2006, a well was drilled and completed; surface facilities were installed and a pipeline tie-in was completed. Production commenced in September, 2006. The well produced for a short period until excess water rates occurred and in October, 2006 the well was shut in. After the well bore was evaluated as having no current economic production potential, the well was abandoned. The Corporation intends to sell the surface facilities and consider additional internal geological reviews of the prospect to determine if any further drilling is warranted.

Fort McMurray – Northern Alberta

The Corporation, jointly with two partners, acquired two blocks of P&NG licenses over sixty-four sections of land near Fort McMurray in northeastern Alberta. The licenses are for all P&NG Rights from the base of the Woodbend formation to fifteen meters into the top of the Precambrian subject to a 2.5% gross overriding royalty reserved for the Seller in the subject lands. The Corporation had an initial 50% working interest, but in 2007 increased it to 100% by acquiring the other partners' interests. A farmout to have a seismic and drilling program carried out for 2008 may be considered or the Corporation may dispose of its interest.

Lucy – Northern British Columbia

The Corporation initially had a 10% working interest in the Lucy/Highwood lands (BC P&NG Lease #44104) consisting of approximately three square miles (799 hectares) located in the North Yoyo Otter Park shale basin in northeastern British Columbia. A well was drilled in December 2006. After some difficult drilling conditions, the lower zones in this well were abandoned.

The Corporation recently initiated an independent operations drilling program on the Lucy prospect and operated the drilling of Kodiak et al Gunnell Creek a-79-A/94-P-4 with the Corporation having an interest of 57%. After penetrating and testing the Keg River zone, which proved unsuccessful, attention has shifted to the uphole Muskwa and Evie shale gas zones. The Muskwa formation had elevated gas readings and well logs indicate a pay zone of up to sixty meters. Based on these results, Kodiak has increased its interest in the property to 80% and will seek approval for a continuation of the lease. Further evaluation work will be undertaken during the next drilling season. Other major industry participants are acquiring large land positions in this part of British Columbia which are prospective for this type of play.

Little Chicago – Northwest Territories

The Corporation is the operator of approximately 200,000 acres under an original Farm-out agreement with the two 50% working interest owners of the 200,000 acre Exploration License 413 ("EL 413") in the Mackenzie River Valley centered along the planned Mackenzie Valley Pipeline. The Corporation reprocessed 50 km of existing seismic data in Q4 of 2006 and during the 2006-07 winter work season, the Corporation expended approximately \$5,500,000 to acquire 2D seismic data on the farm-out Lands, thus earning a 12.5% working interest in the property. In September, 2007, the Corporation acquired Thunder River Energy, Inc.'s ("Thunder") 43.75% in the property giving the Corporation a 55.75% interest in EL 413. A 2007-08 seismic program is being undertaken on the property with tentative plans for drilling in 2008-09.

United States

New Mexico

Through its acquisition of Thunder, the Corporation has acquired a 100% interest in 55,000 acres of property located in northeast New Mexico. Additional land acquisitions have increased the Corporation's land position to 57,000 acres and offers tendered to private holders of additional rights, if successful, will further increase the Corporation's land position by approximately 25%. These lands have potential for natural gas and CO2 and oil and helium resources at shallow depths. The Corporation is currently conducting a seismic program and a 3-4 well drilling program which includes a re-entry of the existing Roxana well at Sofia and drilling test wells on the other Sofia and Spear Draw anticlines. Depending on the success of the seismic and drilling programs and financing, a major development of this project could be commenced later in 2008.

Montana

During 2006, the Corporation, under a joint venture farmout agreement, expended \$540,000 on a seismic program and a 2-3 well drilling program to earn a 50% non-operating working interest in the wells and well spacing, as well as the right to participate on a 50% basis going forward on this prospect in the Hill County area of Montana. The Operator of the project has 100,000 contiguous undeveloped acres of P&NG rights in the area, as well as some excess capacity in facilities and pipelines. Two wells were drilled in the third quarter of 2006; one is cased for subsequent evaluation of the multiple zones found and one was abandoned. A third well is licensed and will be drilled depending upon the results of testing on the first well.

Quarterly Financial Information

The following table sets out certain selected quarterly consolidated financial information of the Corporation for the two years 2007 and 2006. The financial results are not necessarily indicative of the results that may be expected for any other period.

| Quarter (Unaudited) | Net Sales or Total Revenue (US\$) | Income (Loss) from Continuing Operations (US\$) | Net Income (Loss) (US\$) |
|---------------------|---|--|-----------------------------|
| First Quarter | 385 | (314,042) | (314,042) |
| Second Quarter | 42 | (647,052) | (647,052) |
| Third Quarter | (202) | (877,957) | (877,957) |
| Fourth Quarter | - | (936,612) | (936,612) |
| 2006 | | | |
| First Quarter | - | (198,681) | (198,681) |
| Second Quarter | - | (578,001) | (578,001) |
| Third Quarter | 10,331 | (707,893) | (707,893) |
| Fourth Quarter | 16,803 | (1,382,799) | (1,382,799) |

Financial Condition and Changes in Financial Condition

As a result of the brokered private placement financings and the property acquisitions completed in late 2007, the Corporation's balance sheet was significantly strengthened. With its strong working capital position, the Corporation is now well positioned to initiate its 2008 capital expenditure programs.

The Corporation's total assets have increased to \$34,690,768 as at December 31, 2007 from \$2,707,075 at the end of 2006 and \$556,330 at the end of 2005. These increases resulted from the increased capital expenditure programs under taken by the Corporation in 2007 and 2006, as well as the acquisition described under "Property Acquisition" and the financings described under "Liquidity and Capital Resources". Total assets consist of cash and other current assets of \$10,288,410 (December 31, 2006 - \$1,331,159); oil and gas properties and equipment of \$24,043,005 (December 31, 2006 - \$1,326,056); and other assets of \$359,353 (December 31, 2006 - \$49,860). Our total current liabilities were \$2,302,555 (December 31, 2006 - \$859,103) and consisted of accounts payable and accrued liabilities relating to capital activities and general and administrative costs incurred. We had long term liabilities of \$110,955 (December 31, 2006 - \$ Nil), asset retirement obligations of \$110,955 (December 31, 2006 - \$90,911), and deferred income taxes of \$57,000 (December 31, 2006 - \$Nil). Shareholders' equity amounted to \$32,068,444 (December 31, 2006 - \$1,757,061), net of an accumulated deficit of \$6,839,439 (2006 - \$4,063,776).

Overall Operating Results (All dollar values are expressed in United States dollars unless otherwise stated):

In 2007, the Company had income during the evaluation period of \$225 (2006 - \$27,134; 2005 - \$ Nil) and operating costs of \$20,543 (2006 - \$13,572; 2005 - \$ Nil) relating to production from its Granlea, Alberta project. The well watered out and was deemed uneconomic. Other than that production, the Company remains in the exploratory and development stage.

Net Loss for the year ended December 31, 2007 totalled \$2,775,663 (2006 - \$2,867,374; 2005 - \$1,133,790) These losses include general and administrative expenses of \$2,470,230 (2006 - \$1,377,489; 2005 - \$323,744) which includes stock-based compensation expense amounting to \$643,934 (2006 - \$69,169; 2005 \$ Nil); interest expense of \$94,083 (2006 - \$Nil; 2005 - \$808,811); depletion, depreciation and accretion including ceiling test impairment write-downs of \$ 218,841 (2006 - \$1507,021; 2005 - \$1,235) and deferred income tax expense of \$57,000 (2006 and 2005 - \$ Nil).

General and administrative expenses include the cost of consulting personnel and others who provided investor relations services, public company costs for SEC reporting compliance, accounting, audit and legal fees and other general and administrative office expenses. General and administrative expense also includes stock-based compensation relating to the cost of stock options granted to directors, officers and other personnel of \$643,934 in 2007 (2006 - \$69,169; 2005 - \$ Nil). General and administrative costs have been increasing as the scope of the company's activities have increased and we believe substantial amounts will continue to be spent on such costs in the near term as we progress with the evaluation of our oil and gas prospects. A tenfold increase in our shareholder base from 1,000 to approximately 10,000 shareholders during the past year has also contributed to our increased general and administrative costs.

Interest expense for the year ended December 31, 2007 was \$94,083 (2006 - \$ Nil; 2005 - \$808,811). Most of the 2007 interest expense was incurred relative to the 9-1/2% Notes Payable that were outstanding during the second and third quarters. The 2005 interest arose from the beneficial conversion feature on convertible debt of \$41,189 representing the difference between the conversion price and the fair value of the common stock at the commitment date.

Depletion, depreciation and accretion including ceiling test impairment write-downs includes the cost of depletion and depreciation relating to production from producing properties in 2006, ceiling test impairment write-downs for 2007 and 2006 and the cost of depreciation relating to office furniture and equipment in 2007, 2006 and 2005. At December 31, 2007 and 2006, the carrying values of the Company's unproved properties in its Canadian and United States cost centers were assessed by management and costs attributable to certain Canadian cost center properties were determined to be unsupportable. As a result, ceiling test write-downs of \$174,380 for 2007 and \$1,419,946 for 2006 relating to the Company's Canadian cost center were recorded and included in this expense. The remaining capitalized costs relating to Canadian and United States unproved properties have been excluded from the depletable cost pools for ceiling test purposes.

Deferred income tax expense includes a provision for future Canadian income taxes of \$57,000.

Capital Expenditures:

Capital Expenditures incurred by the Company during the years ended December 31, 2007, 2006 and 2005 are set out below.

| | 2007 | 2006 | 2005 |
|-------------------------------------|----------------------|---------------------|-------------------|
| Land acquisition and carrying costs | \$ 15,339,331 | \$ 139,079 | \$ - |
| Geological and geophysical | 6,138,208 | 173,872 | 250,318 |
| Intangible drilling and completion | 999,010 | 1,866,771 | - |
| Tangible completion and facilities | 22,226 | 202,285 | - |
| Other fixed assets | 58,850 | 53,744 | 15,821 |
| Total Capital Costs Incurred | \$ 22,877,958 | \$ 2,435,751 | \$ 266,139 |

Land acquisition and carrying costs includes \$9,063,205 relative to the acquisition of Thunder's interest in the EL 413 Little Chicago property in the Northwest Territories of Canada and \$6,000,000 relative to the acquisition of Thunder's New Mexico interests. See "Property Acquisition". Geological and geophysical costs include the 2007 portion of the cost of the 2006-07 Seismic program carried out on the EL 413 Little Chicago project.

Property Acquisition:

On September 28, 2007 the Corporation purchased from Thunder and CIMA under the terms of the Thunder Agreement, 100% of Thunder's interest in EL 413 and 100% of CIMA's interest in the Sophia Prospect in consideration for \$1 million cash and 7,000,000 Kodiak Shares valued at \$14,000,000 (\$2.00 per Kodiak Share) and a commitment to issue in the future an additional 11,000,000 Kodiak Shares upon the achievement of certain milestones in connection with the acquired properties. Of the cash consideration, \$100,000 was paid as a deposit on July 11, 2007, and the balance of \$900,000 was paid at closing on September 28, 2007. Of the common share consideration, 7 million shares were issued to Thunder at closing on September 28, 2007. An additional 6 million shares will be issued to Thunder if, as, and when certain performance milestones are achieved, including 2 million shares upon completion of a 2007/08 seismic program by June 30, 2008; 1 million shares upon the spudding of a shallow depth well (1,500 meters TD) by March 31, 2009; 1.5 million shares upon the spudding of a medium depth well (2,500 meters TD) before lease expiry in 2009; and 1.5 million shares upon conversion of any part of EL 413 to a Significant Discovery Lease. If, as a result of the Corporation's exploration and development activities on the acquired properties, reserves in place exceed 100 million barrels, then, for each excess 10 million barrels in place, 100,000 additional shares could be issued, up to a maximum of 5 million additional shares.

Liquidity and Capital Resources:

Since inception to December 31, 2007, the company's operations have been financed from the sale of securities and loans from shareholders. Working capital at December 31, 2007 amounted to \$7,985,855 (2006 - \$472,056).

During the second and third quarters of 2007, the Corporation obtained \$3,300,000 in unsecured 9½% notes payable from a European lender. On September 28, 2007, the lender was repaid \$2,567,500 by way of 1,027,000 Kodiak Shares issued as part of the financing described in Note 8 to the Consolidated Financial Statements. On October 1, 2007, the balance was repaid in full in cash with accrued interest. The September, October and November 2007 brokered private placement financings of \$17,145,010 gross proceeds (\$15,645,000 net of share issue costs) will provide sufficient funds to allow the Corporation to carry on operations into mid 2008. Additional financing may then be required.

During 2007, the Corporation raised \$33,303,427 (2006 - \$4,467,688), net of share issue costs, in private placement financing proceeds. These financings together with the proceeds of the notes payable have enabled the Corporation to finance its on-going capital expenditures and general and administrative expenses. The Corporation currently has no long term debt obligations. The Corporation is in the process of securing agreements with contractors who will provide services in the ordinary course of business in connection with the Corporation's planned capital expenditure programs for 2008.

The Corporation currently has the capital resources to implement and carry out a substantial portion of its 2008 capital programs. However, we expect to raise additional capital, either through debt, equity or a combination thereof to finance the balance of our 2008 program. In addition, we may require funds for additional acquisitions. In the event that additional capital is raised at some time in the future, existing shareholders will experience dilution of their interest in the Corporation.

There is uncertainty that the Company will continue as a going concern, which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has not generated positive cash flow since inception and has incurred operating losses and will need additional working capital for its future planned activities. The recent financing, described in Note 11 to the consolidated financial statements, will provide sufficient working capital to fund the Company's operations until mid 2008 when additional financing will be required unless sufficient cash flow is being obtained from the Company's properties that comprise its near term capital programs. The success of these programs is yet to be determined. These conditions raise doubt about the Company's ability to continue as a going concern. Continuation of the Company as a going concern is dependent upon obtaining sufficient working capital to finance ongoing operations. The Company's strategy to address this uncertainty, includes additional equity and debt financing; however, there are no assurances that any such financings can be obtained on favorable terms, if at all. These financial statements do not reflect the adjustments or reclassification of assets and liabilities that would be necessary if the Company were unable to continue its operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes petroleum and natural gas and related hydrocarbon prices, foreign currency exchange rates and interest rates.

Petroleum and Natural gas and Related Hydrocarbon Prices

The Corporation currently has no petroleum and natural gas and related hydrocarbon reserves or production so the Corporation therefore has no current exposure related to the instability of prices of such commodities. However; the prices of these commodities are unstable and are subject to fluctuation, due to factors outside of the Corporation's control, including war, weather, the availability of alternate fuel and transportation interruption and any material decline in these commodity prices could have an adverse impact on the economic viability of the Corporation's exploration projects.

Foreign Currency Exchange Rates

The Corporation, operating in both the United States and Canada, faces exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve and could materially impact the Corporation's financial results in the future. To the extent revenues and expenditures denominated in other currencies vary from their U. S. dollar equivalents, the Corporation is exposed to exchange rate risk. The Corporation can also be exposed to the extent revenues in one currency do not equal expenditures in the same currency. The Corporation is not currently using exchange rate derivatives to manage exchange rate risks.

Interest Rates

The Corporation's interest income and interest expense, in part, is sensitive to the general level of interest rates in North America. The Corporation is not currently using interest rate derivatives to manage interest rate risks.

ITEM 8. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
OPINION ON THE AUDIT OVER INTERNAL CONTROLS

The Board of Directors and Stockholders

Kodiak Energy Inc.:

We have audited Kodiak Energy Inc.'s. (Kodiak) internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Kodiak's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting (Item 9Ac). Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit includes performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

The following deficiencies which we believe to be material weaknesses have been identified and included in management's assessment:

- Kodiak was not adequately staffed with accounting personnel possessing an adequate level of technical expertise and did not maintain effective segregation of duties over automated and manual transactions leading to ineffective monitoring, supervision and reviews. This material weakness affects all significant accounts.
- Kodiak did not maintain effective policies and procedures regarding access controls for critical financial systems. The lack of segregation impacted the financial reporting process, including limited evidence of review of reconciliations and account analysis by individuals with appropriate levels of experience. This deficiency results in a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements would not be prevented or detected on a timely basis.

Specific issues noted as a result of the deficiencies mentioned above are as follows:

- Kodiak did not maintain effective policies and procedures, or personnel with sufficient technical expertise, to ensure proper accounting and disclosure for its oil and gas properties. Specifically, the Company's policies and procedures did not provide for appropriate segregation of duties or supervisory review of depletion, depreciation and accretion, general and administrative expenses capitalization and capital acquisitions to ensure that they were properly reflected and disclosed in the Company's financial statements. As a result, misstatements were identified in the petroleum and natural gas properties account in Kodiak's 2007 consolidated financial statements. This deficiency results in a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements would not be prevented or detected on a timely basis.
- Kodiak did not maintain effective policies and procedures, or personnel with sufficient technical expertise, to ensure proper accounting and disclosure for income taxes. Specifically, the Company's policies and procedures did not provide for appropriate segregation of duties or supervisory review of deferred taxes to ensure that they were properly reflected and disclosed in the Company's financial statements. This deficiency results in a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements would not be prevented or detected on a timely basis.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2007 financial statements, and this report does not affect our report dated February 27, 2008 on those financial statements.

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, Kodiak has not maintained effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets, statements of operations, stockholder's equity and cash flows of Kodiak and our report dated February 27, 2008 expressed an unqualified opinion modified for going concern uncertainties.

Yours truly,

/s/ **MEYERS NORRIS PENNY LLP**

Chartered Accountants
Calgary, Canada
February 27, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
OPINION ON THE AUDIT OF THE FINANCIAL STATEMENTS

**Report of Independent Registered
Public Accounting Firm**

To the Board of Directors and the Stockholders of
Kodiak Energy, Inc.

We have audited the accompanying consolidated balance sheets of Kodiak Energy, Inc. (The "Company and subsidiaries") as of December 31, 2007 and 2006 and the consolidated statements of operations, stockholder's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluation of the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and subsidiaries as of December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company's ability to continue as a going concern is dependent on obtaining sufficient working capital to fund future operations. Management's plan in regard to these matters is also described in Note 1. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ **MEYERS NORRIS PENNY LLP**

Chartered Accountants
Calgary, Canada
February 27, 2008

KODIAK ENERGY, INC.
Consolidated Balance Sheets
(Exploration Stage Company Going Concern Uncertainty – Note 1)

| | December 31 2007 | December 31 2006 |
|---|----------------------|---------------------|
| Assets | | |
| Current Assets: | | |
| Cash and Short Term Deposits | \$ 8,983,682 | \$ 448,346 |
| Accounts Receivable (Note 5) | 1,214,253 | 685,975 |
| Prepaid Expenses and Deposits (Note 6) | 90,475 | 196,838 |
| | <u>10,288,410</u> | <u>1,331,159</u> |
| Other Assets (Note 7) | <u>359,353</u> | <u>49,860</u> |
| Capital Assets (Note 8): | | |
| Unproved Oil & Gas Properties Excluded From Amortization – Based On Full Cost Accounting | 23,967,351 | 1,270,253 |
| Furniture and Fixtures | 75,654 | 55,803 |
| | <u>24,043,005</u> | <u>1,326,056</u> |
| Total Assets | \$ 34,690,768 | \$ 2,707,075 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Accounts Payable | 1,547,273 | 585,253 |
| Accrued Liabilities | 755,282 | 273,850 |
| | <u>2,302,555</u> | <u>859,103</u> |
| Long-term Liabilities (Note 9) | <u>110,955</u> | <u>-</u> |
| Asset Retirement Obligations (Note 10) | <u>151,814</u> | <u>90,911</u> |
| Deferred Income Taxes (Note 11) | <u>57,000</u> | <u>-</u> |
| | <u>2,622,324</u> | <u>950,014</u> |
| Stockholders' Equity | | |
| Share Capital (Note 12): | | |
| Authorized: | | |
| 300,000,000 (2006 - 100,000,000) Common Shares Par Value .001 Each Issued & Outstanding 106,692,498 | | |
| (2006 – 89,946,468) Common Shares | 106,692 | 89,946 |
| Shares Issuable (Note 12) | - | 538,328 |
| Additional Paid in Capital | 39,143,392 | 5,212,777 |
| Other Comprehensive Loss | (342,201) | (20,214) |
| Deficit Accumulated During The Exploration Stage | (6,839,439) | (4,063,776) |
| | <u>32,068,444</u> | <u>1,757,061</u> |
| Total Liabilities and Equity | \$ 34,690,768 | \$ 2,707,075 |

(See accompanying notes to the consolidated financial statements)

KODIAK ENERGY, INC.
Consolidated Statements of Stockholders' Equity (Deficiency)
For the Period From Date of Inception, April 7, 2004 to December 31, 2007
(Exploration Stage Company Going Concern Uncertainty – Note 1)

| | Number of Common Shares | Amount | Additional Paid in Capital | Deficit Accumulated During the Development Stage (Restated – Note 2) | Accumulated Other Comprehensive Loss (Restated – Note 2) | Shares Issuable (Restated – Note 2) | Total Shareholders' Equity (Deficit) (Restated - Note 2) |
|-----------------------------------|----------------------------|------------|-------------------------------|---|--|---|--|
| Pre Bankruptcy | 324,028 | \$ 324 | \$ 1,813,853 | \$ (1,814,176) | \$ - | \$ - | |
| Fresh Start Adjustments | | | (1,813,853) | 1,814,176 | (324) | - | - |
| Balance at April 7, 2004 | 324,028 | 324 | - | - | (324) | - | - |
| Issuance of common stock | 150,000 | 150 | 24,850 | - | - | - | 25,000 |
| Contributions to capital | | | 900 | - | - | | 900 |
| Net Loss | | | - | (62,613) | - | - | (62,613) |
| Balance at December 31, 2004 | 474,028 | \$ 474 | \$ 25,750 | \$ (62,613) | \$ (324) | \$ - | \$ (36,713) |
| Net Loss | - | - | - | (1,133,790) | - | - | (1,133,790) |
| Foreign currency translation | - | - | - | - | (7,216) | - | (7,216) |
| Total comprehensive loss | | | | (1,133,790) | (7,216) | - | (1,141,006) |
| Beneficial Debt Conversion | | | 808,811 | - | - | - | 808,811 |
| Shares to be Issued | | | - | - | - | 773,637 | 773,637 |
| Share Subscriptions Receivable | - | - | - | - | - | (72,000) | (72,000) |
| Balance at December 31, 2005 | 474,028 | \$ 474 | \$ 834,561 | \$ (1,196,402) | \$ (7,540) | \$ 701,637 | \$ 332,729 |
| Net Loss | - | - | - | (2,867,374) | - | - | (2,867,374) |
| Foreign currency translation | - | - | - | - | (12,675) | - | (12,675) |
| Total comprehensive loss | | | | (2,867,374) | (12,675) | - | (2,880,049) |
| Beneficial Debt Conversion | | | 808,811 | - | - | - | 808,811 |
| Issuance of common stock | 89,472,440 | 89,472 | 4,309,047 | - | - | (701,637) | 3,696,882 |
| Shares to be Issued | | | - | - | - | 538,328 | 538,328 |
| Stock-based Compensation | - | - | 69,169 | - | - | - | 69,169 |
| Balance at December 31, 2006 | 89,946,468 | \$ 89,946 | \$ 5,212,777 | \$ (4,063,776) | \$ (20,214) | \$ 538,328 | \$ 1,757,061 |
| Net Loss | - | - | - | (2,775,663) | - | - | (2,775,663) |
| Foreign currency translation | - | - | - | - | (321,987) | - | (321,987) |
| Total comprehensive loss | | | | (2,775,663) | (321,987) | - | (3,097,650) |
| Issuance of common stock | 16,746,030 | 16,746 | 33,286,681 | - | - | (538,328) | 32,765,099 |
| Stock-based Compensation | - | - | 643,934 | - | - | - | 643,934 |
| Balance at December 31, 2007 | 106,692,498 | \$ 106,692 | \$ 39,143,392 | \$ (6,839,439) | \$ (342,201) | \$ - | \$ 32,068,444 |

(See accompanying notes to the consolidated financial statements)

KODIAK ENERGY, INC.
Consolidated Statements of Operations
(Exploration Stage Company Going Concern Uncertainty – Note 1)

| | Year Ended December 31, 2007 | Year Ended December 31, 2006 | Year Ended December 31, 2005 (Restated – Note 2) | Cumulative Since Inception Apr. 7, 2004 to December 31, 2007 |
|---|------------------------------------|------------------------------------|---|--|
| INCOME DURING THE EVALUATION PERIOD | \$ 225 | \$ 27,134 | - | \$ 27,359 |
| EXPENSES | | | | |
| Operating | 20,543 | 13,572 | - | 34,115 |
| General and Administrative | 2,470,230 | 1,377,489 | 323,744 | 3,871,575 |
| Stock-based Investor Relations | - | - | - | 337,500 |
| Depletion, Depreciation and Accretion including Ceiling Test Impairment Write-downs | 218,841 | 1,507,021 | 1,235 | 1,727,097 |
| Interest | 94,083 | - | 808,811 | 902,894 |
| | <u>2,803,697</u> | <u>2,898,082</u> | <u>1,133,790</u> | <u>6,873,181</u> |
| Loss Before Other Expenses (Income) | 2,803,472 | 2,870,948 | 1,133,790 | 6,845,822 |
| Other Expenses (Income) | | | | |
| Loss from valuation adjustment | - | - | - | 25,000 |
| Interest Income | (84,809) | (3,574) | - | (88,383) |
| | <u>(84,809)</u> | <u>(3,574)</u> | <u>-</u> | <u>(63,383)</u> |
| Loss before income taxes | 2,718,663 | 2,867,374 | - | 6,782,439 |
| Provision for Deferred Income Taxes | 57,000 | - | - | 57,000 |
| NET LOSS | <u>\$ 2,775,663</u> | <u>\$ 2,867,374</u> | <u>\$ 1,133,790</u> | <u>\$ 6,839,439</u> |
| Basic and diluted loss per share (Note 14) | \$ 0.03 | \$ 0.04 | \$ 0.60 | |

(See accompanying notes to the consolidated financial statements)

KODIAK ENERGY, INC.
Consolidated Statements of Cash Flows
(Exploration Stage Company Going Concern Uncertainty – Note 1)

| | Year Ended December 31, 2007 | Year Ended December 31, 2006 | Year Ended December 31, 2005 (Restated – Note 2) | Cumulative Since Inception April 7, 2004 to December 31, 2007 |
|---|------------------------------------|------------------------------------|---|---|
| Operating Activities: | | | | |
| NET LOSS | \$ (2,775,663) | \$ (2,867,374) | (1,133,790) | \$ (6,839,439) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | | |
| Depletion, Depreciation and Accretion | 218,841 | 1,507,021 | 1,235 | 1,727,097 |
| Interest Expense | - | - | 808,811 | 808,811 |
| Stock-Based Investor Relations Expense | - | 337,500 | - | 337,500 |
| Stock-Based Compensation | 643,934 | 69,169 | - | 713,103 |
| Provision for Deferred Income Taxes | 57,000 | - | - | 57,000 |
| Bad Debts Written off | 11,908 | - | - | 11,908 |
| Contributions to Capital | - | - | - | 900 |
| Non-Cash Working Capital Changes(Note 19) | (660,101) | 44,929 | 23,813 | (529,323) |
| Net Cash Used In Operating Activities | \$ (2,504,081) | (908,755) | (299,931) | (3,712,443) |
| Investment Activities: | | | | |
| Additions To Capital Assets | (7,508,553) | (2,636,668) | (214,779) | (10,360,000) |
| Additions To Other Assets | (309,493) | (29,611) | (20,249) | (359,353) |
| Net Cash Used In Investment Activities | (7,818,046) | (2,666,279) | (235,028) | (10,719,353) |
| Financing Activities | | | | |
| Shares Issued and Issuable | 19,068,495 | 3,845,404 | 732,826 | 23,646,725 |
| Long Term Liabilities | 110,955 | - | - | 110,955 |
| Net Cash Provided By Financing Activities | 19,179,450 | 3,845,404 | 732,826 | 23,757,680 |
| Foreign Currency Translation | 321,987 | (12,675) | (7,216) | (342,201) |
| Net Cash Increase | 8,535,336 | 257,695 | 190,651 | 8,983,682 |
| Cash beginning of year | 448,346 | 190,651 | - | - |
| Cash end of year | \$ 8,983,682 | \$ 448,346 | \$ 190,651 | \$ 8,983,682 |
| Cash is comprised of: | | | | |
| Balances with banks | \$ 1,238,796 | \$ 448,346 | \$ 190,651 | \$ 1,238,796 |
| Short term deposits | \$ 7,744,886 | \$ - | \$ - | \$ 7,744,886 |
| | \$ 8,983,682 | \$ 448,346 | \$ 190,651 | \$ 8,983,682 |

(See accompanying notes to the consolidated financial statements)

KODIAK ENERGY, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2007, 2006 and 2005
Stated in US dollars

1. ORGANIZATION, BASIS OF PRESENTATION AND GOING CONCERN UNCERTAINTY

The accompanying consolidated financial statements include the accounts of Kodiak Energy Inc. and subsidiaries (collectively "Kodiak", the "Company", "we", "us" or "our") as at December 31, 2007 and December 31, 2006 and for the cumulative period from April 7, 2004 (inception) until December 31, 2007, and are presented in accordance with generally accepted accounting principles in the United States of America ("U. S. GAAP").

The Company was incorporated under the laws of the state of Delaware on December 15, 1999 under the name "Island Critical Care, Corp." with authorized common stock of 50,000,000 shares with a par value of \$0.001. On December 30, 2004 the name was changed to "Kodiak Energy, Inc." and the authorized common stock was increased to 100,000,000 shares with the same par value. On January 17, 2005 the Company effected a reverse split of 100 outstanding shares for one share. These consolidated financial statements have been prepared showing post split shares from inception. The Company was engaged in the development of the manufacture and distribution of medical instrumentation and it became inactive after the bankruptcy outlined below. During 2006, the Company increased its authorized capital to 300,000,000 common shares.

The Company is in the exploration stage and its efforts have been principally devoted to the raising of capital, organizational infrastructure development and the acquisition of oil and gas properties for the purpose of future extraction of resources.

Bankruptcy

On February 5, 2003 the Company filed a petition for bankruptcy in the District of Prince Edward Island, Division No. 01-Prince Edward Island Court No. 1713, Estate No. 51-104460, titled "Island Critical Care Corp.". The Company emerged from bankruptcy pursuant to a Bankruptcy Court Order entered on April 7, 2004 with no remaining assets or liabilities and adopted Fresh Start Accounting.

The terms of the bankruptcy settlement included the authorization for the issuance of 150,000 post split restricted common shares in exchange for \$25,000, which was paid into the bankruptcy court by the recipient of the shares.

The Company emerged from bankruptcy as a development stage company.

Going Concern Uncertainty

These consolidated financial statements have been prepared assuming the Company will continue as a going concern, which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has not generated positive cash flow since inception and has incurred operating losses and will need additional working capital for its future planned activities. The recent financing described in Note 11 will provide sufficient working capital to fund the Company's operations until mid 2008 when additional financing will be required unless sufficient cash flow is being obtained from the Company's properties that comprise its near term capital programs. The success of these programs is yet to be determined. These conditions raise doubt about the Company's ability to continue as a going concern. Continuation of the Company as a going concern is dependent upon obtaining sufficient working capital to finance ongoing operations. The Company's strategy to address this uncertainty, includes additional equity and debt financing; however, there are no assurances that any such financings can be obtained on favorable terms, if at all. These financial statements do not reflect the adjustments or reclassification of assets and liabilities that would be necessary if the Company were unable to continue its operations.

2. RESTATEMENT

In November, 2006, it was determined that it was necessary to restate the financial results for the year ended December 31, 2005 and for the periods ended March 31, 2006 and June 30, 2006. The purpose of the restatements is to correct errors found in accounting for transactions resulting from a lack of adequate procedures necessary to insure that records were maintained in reasonable detail to fairly reflect the transactions of the Company in the start up phase of operations. More specifically the errors found are outlined as follows:

- Capitalization of items which should have been expensed under the successful efforts method of accounting for oil and gas property
- Not recognizing the beneficial conversion feature of debt payable in common shares of the Company
- Certain expenses paid after year end not being accrued for at period end
- Expensing costs relating to issuance of common shares
- Calculation errors made in the translation of Canadian operations to U.S. dollars

The Company's quarterly reporting in 2005 was not affected as the operations of the Company commenced in the fourth quarter.

In addition to the above noted errors, the Company changed its policy of accounting for oil and gas properties. The Company adopted the full cost method of accounting to better reflect its assets on a country-by-country basis and to make the financial presentation of its assets more comparable to its peers in the oil and gas industry.

Effects of the restatement by line item follow:

Consolidated Balance Sheet

| | December 31, 2005 As Previously Reported | Impact of Errors | Change in Accounting Policy | December 31, 2005 As Restated |
|--|---|------------------|-----------------------------------|-------------------------------------|
| Cash | \$ 235,793 | \$ (45,142) | | \$ 190,651 |
| Other Receivables | 6,470 | 6,206 | | 12,676 |
| Prepaid Expenses | 57,850 | 10,000 | | 67,850 |
| Total Current Assets | 300,113 | (28,936) | | 271,177 |
| Other Assets | - | 20,249 | | 20,249 |
| Oil & Gas Properties | 267,956 | (149,638) | \$ 132,000 | 250,318 |
| Furniture and Fixtures | 13,903 | 1,918 | | 15,821 |
| Accumulated Amortization | (1,075) | (160) | | (1,235) |
| Total Property, Plant & Equipment | 280,784 | (147,880) | 132,000 | 264,904 |
| Total Assets | 580,897 | (156,567) | 132,000 | 556,330 |
| Accounts Payable | 101,255 | (72,702) | | 28,553 |
| Accrued Expenses | 4,590 | 149,269 | | 153,859 |
| Convertible debt | - | 41,189 | | 41,189 |
| Total Current Liabilities | 105,845 | 117,756 | | 223,601 |
| Shares to be issued | 800,000 | 26,263 | | 773,637 |
| Share subscription receivable | - | (72,000) | - | (72,000) |
| Additional paid in capital | 25,750 | 808,811 | | 834,561 |
| Deficit Accumulated During the Development Stage | (309,502) | (1,018,901) | 132,000 | (1,196,403) |
| Accumulated Other Comprehensive Loss | (41,669) | 34,130 | | (7,540) |
| Total Shareholders' Equity | 475,052 | (274,323) | 132,000 | 332,729 |
| Total Liabilities & Shareholders' Equity | \$ 580,897 | \$ (156,567) | \$ 132,000 | \$ 556,330 |

Consolidated Statement of Operations

| | Year Ended December 31, 2005 As Previously Reported | Impact of Errors | Change In Accounting Policy | Year Ended December 31, 2005 As Restated |
|--------------------------------------|---|------------------|-----------------------------------|---|
| Administrative Expense | \$ 245,814 | \$ 209,930 | \$ (132,000) | \$ 323,744 |
| Interest Expense | - | 808,811 | - | 808,811 |
| Loss Before Other Expense | (245,814) | (1,018,741) | 132,000 | (1,132,555) |
| Amortization of Furniture & Fixtures | (1,075) | (160) | - | (1,235) |
| Net Loss | \$ (246,889) | \$ (1,018,901) | \$ 132,000 | \$ (1,133,790) |
| Basic & Diluted Loss per Share | \$ (0.52) | \$ (2.15) | \$ 0.28 | \$ (2.39) |

Consolidated Statement of Shareholders' Equity Period April 7, 2004 (Date of Inception) to December 31, 2005

| | Additional Paid in Capital | Deficit Accumulated during the Development Stage | Accumulated Other Comprehensive Loss | Shares Issuable | Total Shareholders' Equity |
|--|-------------------------------|--|---|-----------------|-------------------------------|
| Balance December 31, 2005 as Previously Reported | \$ 25,750 | \$ (309,502) | \$ (41,669) | \$ 800,000 | \$ 475,052 |
| Impact of Errors | 808,811 | (1,018,901) | 34,129 | (98,363) | (274,323) |
| Change in Accounting Policy | - | 132,000 | - | - | 132,000 |
| Balance December 31, 2005 as Restated | 834,561 | \$ (1,196,402) | \$ (7,540) | \$ 701,637 | \$ 332,729 |

Consolidated Statement of Cash Flow

| | Year Ended December 31, 2005As Previously Reported | | Change in Accounting Policy | Year Ended December 31,2005 As Restated |
|---|--|------------------|-----------------------------------|--|
| | | Impact of Errors | | |
| Net Loss | \$ (246,889) | \$ (1,018,901) | \$ 132,000 | \$ (1,133,790) |
| Amortization of Furniture & Fixtures | 1,075 | 160 | | 1,235 |
| Interest Expense | - | 808,811 | | 808,811 |
| Foreign Currency Translation | (41,346) | 34,130 | | (7,216) |
| Change in Other Receivables | (6,470) | (6,206) | | (12,676) |
| Change in Accounts Payable | 64,542 | (42,989) | | 21,553 |
| Change in Accrued Expenses | 4,590 | 68,196 | | 72,786 |
| Change in Cash Used in Operating Activity | (282,348) | (115,610) | 132,000 | (307,147) |
| Investing Activities | | | | |
| Additions to Capital Assets | (281,859) | (116,280) | 132,000 | (266,139) |
| Additions to Other Assets | - | (20,249) | | (20,249) |
| Accounts Payable | - | 7,000 | | 7,000 |
| Change in Accrued Expenses | | 44,360 | | 44,360 |
| Cash Used in Investing Activities | (281,859) | (85,169) | 132,000 | (235,028) |
| Financing Activities | | | | |
| Shares to be Issued | 800,000 | (98,363) | | 773,637 |
| Share Subscription Receivable | | | | (72,000) |
| Change in Prepaid Expenses | (10,000) | | | (10,000) |
| Convertible Debt | - | 41,189 | | 41,189 |
| Cash Provided by Financing Activities | 800,000 | (108,363) | | 732,826 |
| Net Cash Increase | 235,793 | (309,142) | 264,000 | 190,651 |
| Cash End of Period | \$ 235,793 | \$ (309,142) | \$ 264,000 | \$ 190,651 |

The impact of the errors and change in accounting policy on the period from April 7, 2004 to December 31, 2005 is identical to the impact for the year ended December 31, 2005 as noted in the above schedules. There was no impact on the December 31, 2004 balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Kodiak Petroleum ULC, Kodiak Petroleum (Montana), Inc., and Kodiak Petroleum (Utah), Inc. In British Columbia, Canada, the Company operates under the assumed name of Kodiak Bear Energy, Inc. All intercompany accounts and transactions have been eliminated.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U. S. GAAP requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on the knowledge of current events and actions the Company may undertake in the future, they may ultimately differ from actual results. Included in these estimates are assumptions about allowances for valuation of deferred tax assets. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. The provision for asset retirement obligation, depletion, as well as management's impairment assessment on its oil and gas properties and other long lived assets are based on estimates and by their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in these estimates, in future periods, could be significant. These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Joint Venture Operations

In instances where the Company's oil and gas activities are conducted jointly with others, the Company's accounts reflect only its proportionate interest in such activities.

Cash and Short-term Deposits

Cash consists of balances with financial institutions and investments in money market instruments, which have terms to maturity of three months or less at time of purchase.

Oil and Gas Properties

Under the full cost method of accounting for oil and gas operations all costs associated with the exploration for and development of oil and gas reserves are capitalized on a country-by-country basis. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, production equipment and overhead charges directly related to acquisition, exploration and development activities. Proceeds from the sale of oil and gas properties are applied against capitalized costs with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation in a particular country, in which case a gain or loss on disposal is recorded.

Capitalized costs within each country are depleted and depreciated on the unit-of-production method based on the estimated gross proved reserves as determined by independent petroleum engineers. Oil and gas reserves and production are converted into equivalent units on the basis of 6,000 cubic feet of natural gas to one barrel of oil. Depletion and depreciation is calculated using the capitalized costs, including estimated asset retirement costs, plus the estimated future costs to be incurred in developing proved reserves, net of estimated salvage value.

An impairment loss is recognized in net earnings if the carrying amount of a cost center exceeds the "cost center ceiling". The carrying amount of the cost center includes the capitalized costs of proved oil and natural gas properties, net of accumulated depletion and deferred income taxes and the cost center ceiling is the present value of the estimated future net cash flows, using yearend unescalated prices, from proved oil and natural gas reserves discounted at ten percent (net of related tax effects) plus the lower of cost or fair value of unproved properties included in the costs being amortized (and/or the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves).

Costs of acquiring and evaluating unproved properties and major development projects are initially excluded from the depletion and depreciation calculation until it is determined whether or not proved reserves can be assigned to such properties. Costs of unproved properties and major development projects are transferred to depletable costs based on the percentage of reserves assigned to each project over the expected total reserves when the project was initiated. These costs are assessed periodically to ascertain whether impairment has occurred.

Property and Equipment

Property and equipment is recorded at cost. Depreciation of assets is provided by use of a declining balance method over the estimated useful lives of the related assets. Expenditures for replacements, renewals, and betterments are capitalized. Maintenance and repairs are charged to operations as incurred.

Asset Retirement Obligations

The Company recognizes a liability for asset retirement obligations in the period in which they are incurred and in which a reasonable estimate of such costs can be made. Asset retirement obligations include those legal obligations where the Company will be required to retire tangible long-lived assets such as producing well sites. The asset retirement obligation is measured at fair value and recorded as a liability and capitalized as part of the cost of the related long-lived asset as an asset retirement cost. The asset retirement obligation accretes until the time the asset retirement obligation is expected to settle while the asset retirement costs included in oil and gas properties are amortized using the unit-of-production method.

Amortization of asset retirement costs and accretion of the asset retirement obligation are included in depletion, depreciation and accretion. Actual asset retirement costs are recorded against the obligation when incurred. Any difference between the recorded asset retirement obligations and the actual retirement costs incurred is recorded in depletion, depreciation and accretion.

Environmental

Oil and gas activities are subject to extensive federal, provincial, state and local environmental laws and regulations. These laws, which are constantly changing, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites.

Environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefits are expensed. Liabilities for expenditures of a non-capital nature are recorded when environmental assessment and/or remediation is probable, and the costs can be reasonably estimated. To date, the Company has not recognized any environmental obligations as production has been insignificant and we have not actively produced since October, 2006.

Income Taxes

Income taxes are determined using the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. In addition, a valuation allowance is established to reduce any deferred tax asset for which it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

Per FASB Interpretation (FIN 48) (See Note 4) under the liability method, it is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. At December 31, 2007, the Company believes it has appropriately accounted for any unrecognized tax benefits. To the extent the Company prevails in matters for which a liability for an unrecognized benefit is established or is required to pay amounts in excess of the liability, the Company's effective tax rate in a given financial statement period may be affected. Interest and penalties associated with the Company's tax positions are recorded as Interest Expense.

Stock-Based Compensation

The Company records compensation expense for share based payments using the fair value method pursuant to Financial Accounting Standards Board Statement (“FASB”) No. 123R. The fair value of share-based compensation to employees will be determined using an option pricing model at the time of grant. Fair value for common shares issued for goods or services rendered by non-employees are measured based on the fair value of the goods or services received. Stock-based compensation expense is included in general and administrative expense with a corresponding increase to Additional Paid in Capital. Upon the exercise of the stock options, consideration paid together with the previously recognized Additional Paid in Capital is recorded as an increase in share capital.

Foreign Currency Translation

The functional currency for the Company’s foreign operations is the Canadian dollar. The translation from the applicable foreign currencies to U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date, while income, expenses and cash flows are translated at the average exchange rates for the period. The resulting translation adjustments are recorded as a component of other comprehensive income. Gains or losses resulting from foreign currency transactions are included in other income/expenses.

Revenue Recognition

Revenues from the sale of petroleum and natural gas are recorded when title passes from the Company to its petroleum and/or natural gas purchaser and collectability is reasonably assured. The Company will begin recording revenue once it is determined there are proved reserves.

Loss Per Common Share

Basic earnings/loss per common share is computed by dividing net earnings/loss by the weighted average number of common shares outstanding for the period. Diluted earnings/loss per common share is computed after giving effect to all dilutive potential common shares that were outstanding during the period. Dilutive potential common shares consist of incremental shares issuable upon exercise of stock options and warrants, contingent stock, conversion of debentures and preferred stock outstanding. The dilutive effect of potential common shares is not considered in the EPS calculations for these periods if the impact would have been anti-dilutive.

4. RECENT ACCOUNTING PRONOUNCEMENTS

FASB Interpretation (FIN) 48, “Accounting for Uncertainty in Income taxes – an interpretation of FASB Statement No. 109 (FIN 48). In July 2006, the FASB issued FIN 48, which provides guidance on accounting for income tax positions about which the Company has concluded there is a level of uncertainty with respect to the recognition of a tax benefit in the Company’s financial statements. FIN 48 describes the minimum recognition threshold a tax position is required to meet. Tax positions are defined very broadly and include not only tax deductions and credits but also decisions not to file in a particular jurisdiction, as well as the taxability of certain transactions.

Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. There was not a material impact on the Company’s consolidated financial position and results of operations as a result of the adoption of the provisions of FIN 48. At December 31, 2007, the Company had no significant unrecognized tax positions and the Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months.

The Company’s tax positions are subject to examination by tax authorities. As at December 31, 2007, the Company’s tax years 2005 to present are open for United States – Federal and State jurisdictions and Canada – Federal and Provincial jurisdictions.

The following new accounting standards have been issued, but have not yet been adopted by the Company:

In November, 2007, FASB issued SFAS No. 141(R), Business Combination. FAS 141(R) will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. FAS 141(R) is effective for both public and private companies for fiscal years beginning on or after December 15, 2008. FAS 141(R) will be applied prospectively. Early adoption is prohibited. The Company has not yet determined this pronouncement's potential impact.

Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" (SFAS No. 157). In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No 157 does not require any new fair value measurements. However, in some cases, the application of SFAS No. 157 may change the Company's current practice for measuring and disclosing fair values under other accounting pronouncements that require or permit fair value measurements. For the Company, SFAS No. 157 will be effective as of January 1, 2008 and must be applied prospectively except in certain cases. The Company is currently evaluating the impact of adopting SFAS NO. 157, and cannot currently estimate the impact of SFAS No. 157 on its consolidated results of operations, cash flows or financial position.

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159). In February 2007, the FSAB issued SFAS No. 159, which permits entities to choose to measure many new financial instruments and certain other items at fair value. For the Company, SFAS No. 159 will be effective as of January 1, 2008 and will have no impact on amounts presented for periods prior to the effective date. The Company cannot currently estimate the impact of SFAS No. 159 on its consolidated results of operations, cash flows or financial position and has not yet determined whether or not it will choose to measure items subject to SFAS No. 159 at fair value.

5. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

| | December 31, 2007 | December 31, 2006 |
|--|----------------------|----------------------|
| Non-operating Partner joint venture accounts | \$ 454,179 | \$ 294,284 |
| Operator cash call advances | 76,388 | 250,130 |
| Government of Canada Goods and Services Tax Claims | 621,254 | 114,363 |
| Accrued interest receivable | 57,096 | - |
| Other | 5,336 | 27,198 |
| | <u>\$ 1,214,253</u> | <u>\$ 685,975</u> |

6. PREPAID EXPENSES AND DEPOSITS

Prepaid expenses and deposits consist primarily of unexpired insurance premiums and software license user fees. An amount of \$186,924 (2006 - \$170,884) representing the Company's share of a refundable Northwest Territories work deposit with Indian & Northern Affairs Canada was approved for refund in September, 2007 and was received by the Company in October, 2007, leaving no balance on deposit as at December 31, 2007.

7. OTHER ASSETS

Other assets represent long term deposits required by governmental regulatory authorities for environmental obligations relating to well abandonment and site restoration activities.

| | December 31, 2007 | December 31, 2006 |
|---|----------------------|----------------------|
| Alberta Energy and Utility Board Drilling Deposit | \$ 87,518 | \$ 23,808 |
| Alberta Energy Royalty Deposit | 4,723 | 4,074 |
| British Columbia Oil and Gas Commission Deposit | 267,112 | 21,978 |
| | <u>\$ 359,353</u> | <u>\$ 49,860</u> |

8. CAPITAL ASSETS

| | Cost | Accumulated Depreciation and Depletion | Net Book Value December 31, 2007 |
|--------------------------------|----------------------|--|---|
| Oil and Gas Properties: | | | |
| Canada | \$ 18,595,042 | \$ 1,651,037 | \$ 16,944,005 |
| United States | 7,023,346 | - | 7,023,346 |
| | <u>25,618,388</u> | <u>1,651,037</u> | <u>23,967,351</u> |
| Furniture and Fixtures | 128,412 | 52,758 | 75,654 |
| Total | <u>\$ 25,746,800</u> | <u>\$ 1,703,795</u> | <u>\$ 24,043,005</u> |
| | Cost | Accumulated Depreciation And Depletion | Net Book Value December 31, 2006 |
| Oil and gas Properties: | | | |
| Canada | \$ 2,182,075 | \$ 1,476,657 | \$ 705,418 |
| United States | 564,835 | - | 564,835 |
| | <u>2,746,910</u> | <u>1,476,657</u> | <u>1,270,253</u> |
| Furniture and Fixtures | 69,564 | 13,761 | 55,803 |
| Total | <u>\$ 2,816,474</u> | <u>\$ 1,490,418</u> | <u>\$ 1,326,056</u> |

During the year ended December 31, 2007, the Company capitalized \$193,173 (2006 - \$ Nil) of general and administrative personnel costs attributable to acquisition, exploration and development activities.

Unproved Properties

Included in oil and gas properties are the following costs related to Canadian and United States unproved properties, valued at cost, that have been excluded from costs subject to depletion:

| | December 31, 2007 | December 31, 2006 |
|-----------------------------------|----------------------|----------------------|
| Canada | | |
| Land acquisition and retention | \$ 9,284,017 | \$ 84,263 |
| Geological and geophysical costs | 6,371,954 | 241,017 |
| Exploratory drilling | 1,114,763 | 192,430 |
| Tangible Equipment and Facilities | 127,217 | 187,708 |
| Other | 46,054 | - |
| | <u>\$ 16,944,005</u> | <u>\$ 705,418</u> |
| United States | | |
| Land acquisition and retention | \$ 6,206,389 | \$ - |
| Geological and geophysical costs | 383,800 | 132,000 |
| Exploratory drilling | 409,246 | 408,924 |
| Tangible Equipment and Facilities | - | - |
| Other | 23,911 | 23,911 |
| | <u>\$ 7,023,346</u> | <u>\$ 564,835</u> |
| | <u>\$ 23,967,351</u> | <u>\$ 1,270,253</u> |

Drilling programs are being planned for 2008-2009 for our North West Territories and British Columbia properties in Canada and a drilling program is currently underway on our New Mexico property in the United States. It is estimated by management that the unproved property costs associated with these three properties, which in the aggregate constitutes approximately \$22,954,994 of our total unproved property costs as at December 31, 2007, will be included in our costs subject to depletion during 2008 or 2009.

Ceiling Test

The Company has performed ceiling tests for its Canadian and United States geographical cost centers. As at December 31, 2007 and 2006, the carrying values of the Company's unproved properties in its Canadian and United States cost centers were assessed by management and costs attributable to certain Canadian cost center properties were determined to be unsupportable. Consequently, ceiling test impairment write-downs of \$174,380 (2006 - \$1,419,946) were recorded and included in depletion, depreciation and accretion. It was determined that no impairment existed in its United States cost center as at December 31, 2007 or 2006.

Property Acquisition

On September 28, 2007 the Company purchased from Thunder Energy, Inc. ("Thunder") and CIMA Holdings, Inc. ("CIMA"), a subsidiary of Thunder, 100% of Thunder's interest in its EL 413 Exploration License in the Northwest Territories and 100% of CIMA's interest in their New Mexico properties in consideration for \$1 million cash and 7,000,000 common shares of the Company valued at \$14,000,000 (\$2.00 per common share) and a commitment to issue in the future an additional 11,000,000 common shares of the Company upon the achievement of certain milestones in connection with the acquired properties. All acquired properties are unproved.

Of the cash consideration, \$100,000 was paid as a deposit on July 11, 2007, and the balance of \$900,000 was paid at closing on September 28, 2007. Of the common shares consideration, 7 million shares were issued to Thunder at closing on September 28, 2007. An additional 6 million shares will be issued to Thunder if, as, and when certain performance milestones are achieved, including 2 million shares upon completion of a 2007/08 seismic program by June 30, 2008; 1 million shares upon the spudding of a shallow depth well (1,500 meters TD) by March 31, 2009; 1.5 million shares upon the spudding of a medium depth well (2,500 meters TD) before lease expiry in 2009 and 1.5 million shares upon conversion of any part of EL 413 to a Significant Discovery Lease. If, as a result of the Company's exploration and development activities on the acquired properties, reserves in place exceed 100 million barrels, then, for each excess 10 million barrels in place, 100,000 additional shares could be issued, up to a maximum of 5 million additional shares.

9. LONG TERM LIABILITIES

As at December 31, 2007, the Company held \$110,955 (2006 - \$ Nil) in funds advanced by partners for their share of a drilling deposit required to be lodged by the Company with the British Columbia Oil and Gas Commission (see Note 6) as security for future well abandonment and site restoration activities.

Notes Payable

During the second and third quarters of 2007, the Company received \$3,300,000 in advances from a European lender which bore interest at 9½% per annum and were unsecured. On September 28, 2007, the lender was repaid \$2,567,500 in 1,027,000 common shares issued as part of the financing described in Note 12. On October 1, 2007, the balance of \$732,500 was repaid in full in cash with accrued interest of \$94,055. The Company had no borrowings in 2006 and 2005.

Convertible Debt

Debt of \$41,189 as at December 31, 2005 was non-interest bearing and convertible to common shares of the Company pursuant to the stock for services compensation plan. A beneficial conversion feature of \$808,811 was calculated on the debt for the year ended December 31, 2005 representing the difference between the conversion price and the fair value of the common stock at the commitment date. This amount is recorded as interest expense and an increase in additional paid in capital. The Company issued 1,000,000 shares in January, 2006 to settle this debt pursuant to the stock for services compensation plan. Debt was reduced by \$41,189 and Shares Issued increased by \$1,000 and Additional Paid-in Capital increased by \$40,189.

10. ASSET RETIREMENT OBLIGATIONS

Changes in the carrying amounts of the asset retirement obligations associated with the Company's oil and natural gas properties are as follows:

| | | |
|---|----|----------------|
| Asset Retirement Obligations, December 31, 2005 | \$ | - |
| Obligations incurred | | 86,193 |
| Accretion | | 4,718 |
| Asset retirement obligations, December 31, 2006 | | 90,911 |
| Obligations incurred | | 106,721 |
| Accretion | | 8,503 |
| Retirements | | (54,321) |
| Asset retirement obligations, December 31, 2007 | \$ | <u>151,814</u> |

At December 31, 2007, the estimated total undiscounted amount required to settle the asset retirement obligations was \$ 213,880 (2006 - \$126,307; 2005 - \$ Nil). These obligations will be settled at the end of the useful lives of the underlying assets, which currently extends up to 8 years into the future. This amount has been discounted using a credit adjusted risk-free interest rate of 7.5% and a rate of inflation of 2.5%.

11. INCOME TAXES

As at December 31, 2007, the Company's deferred tax asset is attributable to its net operating loss carry forward of approximately \$4,053,000 (2006 - \$647,000; 2005 - \$153,000), which will expire if not utilized in the years 2024, 2025, 2026 and 2027. Of this amount, approximately \$402,000 (2006 - \$397,000; 2005 - \$139,000) is attributable to the Company's Canadian operations. As reflected below, this benefit has been fully offset by a valuation allowance based on management's determination that it is not more likely than not that some or all of this benefit will be realized.

For the years ended December 31, 2007, 2006, 2005 and for the period from date of inception, April 7, 2004 to December 31, 2007, a reconciliation of income tax benefit at the U.S. federal statutory rate to income tax benefit at the Company's effective tax rates is as follows.

| | 2007 | 2006 | 2005 | Cumulative |
|---|------------|--------------|------------|--------------|
| Income tax benefit at statutory rate | \$ 998,000 | \$ 1,080,000 | \$ 397,000 | \$ 2,497,000 |
| Permanent Differences | 2,000 | (132,000) | (280,000) | (410,000) |
| State tax benefit, net of federal taxes | 41,000 | 1,000 | 8,000 | 53,000 |
| Foreign taxes, net of federal benefit | (64,000) | 12,000 | (2,000) | (49,000) |
| Change in valuation allowance | (977,000) | (961,000) | (123,000) | (2,091,000) |
| Income tax benefit at effective rate | \$ - | \$ - | \$ - | \$ - |

Deferred tax assets (liabilities) at December 31, 2007, 2006 and 2005 are comprised of the following:

| | 2007 | 2006 | 2005 |
|---|-------------|-------------|-----------|
| Deferred tax assets | | | |
| Deferred costs | \$ - | \$ 443,000 | \$ - |
| Deferred deduction on stock-based Compensation expense | 249,000 | 24,000 | - |
| Net operating loss carryover | 4,053,000 | 647,000 | 153,000 |
| Total deferred tax asset | 4,302,000 | 1,114,000 | 153,000 |
| Deferred Tax liabilities | | | |
| Excess of U.S. tax deductions over book amounts written off | 2,154,000 | - | - |
| Canadian flow-through-share expenditures renounced | 57,000 | - | - |
| Total deferred tax liabilities | 2,211,000 | - | - |
| Net deferred tax asset before valuation allowance | 2,091,000 | 1,114,000 | 153,000 |
| Less valuation allowance | (2,091,000) | (1,114,000) | (153,000) |
| Net deferred tax asset | \$ - | \$ - | \$ - |

12. SHARE CAPITAL

Authorized:

December 31, 2007 and 2006 – 300,000,000 (2005 – 100,000,000) common shares at \$0.001 par value

The following share capital transactions occurred during the periods:

| | Shares Issued | Number | Par Value | Additional Paid in Capital |
|--|---------------|-------------|------------|-------------------------------|
| Balance December 31, 2004 | | 474,028 | \$ 474 | \$ 25,750 |
| Beneficial Debt Conversion (Note 8) | | - | - | 808,811 |
| Balance December 31, 2005 | | 474,028 | 474 | 834,561 |
| Private Placement, net of costs(a) | | 16,000,000 | 16,000 | 756,655 |
| Private Placement, net of costs(b) | | 933,324 | 933 | 1,259,067 |
| Issued for service(c) | | 1,000,000 | 1,000 | 40,189 |
| 2:1 Stock split(d) | | 18,407,352 | 18,407 | (18,407) |
| Issued for service, net of costs(e) | | 7,500,000 | 7,500 | 314,474 |
| 2:1 Stock split(f) | | 44,314,714 | 44,315 | (44,315) |
| Private Placement, net of costs(g) | | 1,130,000 | 1,130 | 1,766,130 |
| Private Placement, net of costs(h) | | 187,050 | 187 | 235,254 |
| Stock-based compensation (note 12) | | - | - | 69,169 |
| Balance December 31, 2006 | | 89,946,468 | 89,946 | 5,212,777 |
| Corrections to previous years' numbers | | 460 | - | - |
| Private Placement, net of costs (h) | | 30,000 | 30 | 38,298 |
| Private Placement, net of costs (i) | | 440,000 | 440 | 499,560 |
| Private Placement, net of costs (j) | | 420,000 | 420 | 474,580 |
| Private Placement, net of costs (k) | | 2,447,900 | 2,448 | 2,777,427 |
| Private Placement, net of costs (l) | | 2,756,000 | 2,756 | 6,218,489 |
| Private Placement, net of costs (l) | | 1,866,670 | 1,867 | 5,150,143 |
| Private Placement (m) | | 7,000,000 | 7,000 | 13,993,000 |
| Private Placement, net of costs (n) | | 335,000 | 335 | 924,265 |
| Private Placement, net of costs (o) | | 1,450,000 | 1,450 | 3,210,919 |
| Stock-based compensation (note 9) | | - | - | 643,934 |
| Balance December 31, 2007 | | 106,692,498 | \$ 106,692 | \$ 39,143,392 |

| Shares Issuable | 2007 | | 2006 | | 2005 | |
|-------------------------------------|-----------|------------|--------------|------------|------------|------------|
| | Number | Value | Number | Value | Number | Value |
| Opening Balance | 470,000 | \$ 538,328 | 16,000,000 | \$ 773,637 | - | - |
| Issued during the period | (470,000) | (538,328) | (16,000,000) | (773,637) | - | - |
| Private Placement, net of costs (a) | - | - | - | - | 16,000,000 | \$ 773,637 |
| Private Placement, net of costs (h) | - | - | 30,000 | 38,768 | - | - |
| Private Placement, net of costs (i) | - | - | 440,000 | 499,560 | - | - |
| Closing Balance | - | \$ - | 470,000 | \$ 538,328 | 16,000,000 | \$ 773,637 |

- (a) On January 13, 2006, 16,000,000 shares of common stock were issued pursuant to two private placements that closed December 22, 2005 (13,650,000 shares for gross proceeds of \$300,000) and December 30, 2005 (910,000 shares, for gross proceeds of \$500,000) respectively, recorded as Shares Issuable at December 31, 2005 in the amount of \$773,637 (net of share issue costs of \$26,363) as the share certificates were not issued until January 13, 2006.
- (b) In January, 2006, the Company closed a private placement for 933,324 common shares at a price of \$1.50 per share for gross proceeds of \$1,400,000. Share issue costs associated with this private placement totaled \$140,000.
- (c) In January, 2006, the Company issued 1,000,000 shares to settle debt of \$41,189 pursuant to the stock for services compensation plan. A beneficial conversion feature of \$808,811 was calculated on the debt for the year ended December 31, 2005 representing the difference between the conversion price and the fair value of the common stock at the commitment date. This amount was recorded as interest expense and an increase in additional paid in capital for the year ended December 31, 2005.
- (d) On February 20, 2006 the Company's stock split forward by paying a stock dividend to our existing shareholders. All shareholders of record on February 14, 2006 received 1 dividend share for every share they owned amounting to 18,407,352 shares of common stock issued.

- (e) During 2006, the Company issued 7,500,000 (2005 – Nil) common shares, pursuant to an S8 registration, for services provided to the Company that have been recorded under the provisions of SFAS No. 123R relating to transactions with non-employees where the fair value of the investor relations services rendered has been recorded as General & Administrative Expense and an increase in Additional Paid In Capital (less share issue costs of \$15,526. The recorded value of the transaction was \$337,500 and was based on the value of the invoices rendered for the services provided and an allowance for the lack of liquidity in the market for the Company's common shares. These transactions were in the normal course of business and agreed to by the non-employees and the Company based on negotiation and accordingly had been measured at the exchange amounts.
- (f) On May 1, 2006 the Company's stock split forward by paying a stock dividend to our existing shareholders. All shareholders of record on April 28, 2006 received 1 dividend share for every share they owned amounting to 44,314,714 shares of common stock issued.
- (g) In June 2006 the Company closed a private placement for 1,130,000 units at a price of \$1.70 per unit for gross proceeds of \$1,921,000. Each unit entitled the subscriber to one common share of the Company and one warrant. Share issue costs associated with this private placement totaled \$153,740. Each warrant entitles the warrant holder to exchange one warrant for one common share at a price of \$2.70 until June 30, 2008 and for \$3.50 until June 30, 2009.
- (h) In December 2006, the Company closed private placements for 54,375 units (217,450 common shares) at a price per unit of \$6.40 Cdn. (\$1.60 Cdn. per share) for aggregate proceeds of \$348,000. Each unit entitles the subscriber to three flow-through common shares and one common share. The flow-through shares entitle the holder to a Canadian Exploration Expense deduction under the Canada Income Tax Act. Of these shares, 30,000 were classified, net of share issue costs of \$38,768, as Shares Issuable as at December 31, 2006 as the share certificates were not issued until February, 2007.
- (i) On December 22, 2006, the Company received proceeds for a private placement of 440,000 units at a price of \$1.25 per unit that closed on February 20, 2007 for gross proceeds of \$550,000. Each unit entitled the subscriber to one common share of the Company and one warrant. These common shares were classified, net of share issue costs of \$50,000, as Shares Issuable as at December 31, 2006 as the share certificates were not issued until January, 2007. Each warrant entitles the warrant holder to exchange one warrant for one common share at a price of \$1.50 until December 22, 2008.
- (j) On February 20, 2007, the Company closed a private placement for 420,000 units at a price of \$1.25 per unit for gross proceeds of \$525,000. Each unit entitled the subscriber to one common share of the Company and one warrant. Each warrant entitles the warrant holder to exchange one warrant for one common share at a price of \$1.50 until February 20, 2009. Share issue costs associated with this private placement totaled \$50,000.
- (k) On May 10, 2007, the Company closed a private placement for 2,447,900 units at a price of \$1.25 per unit for gross proceeds of \$3,059,875. Each unit entitled the subscriber to one common share of the Company and one warrant. Each warrant entitles the warrant holder to exchange one warrant for one common share at a price of \$1.50 until May 10, 2009. Share issue costs associated with this private placement totaled \$280,000.
- (l) On September 28, 2007, the Company closed a brokered private placement offering for an aggregate of 4,622,670 common shares for aggregate gross proceeds of \$12,490,010. Of the total number of shares, 2,756,000 were sold at a purchase price of \$2.50 per share for gross proceeds of \$6,890,000 and 1,866,670 were sold on a Canadian flow through share basis at a purchase price of \$3.00 for gross proceeds of \$5,600,010. Share issue costs associated with this offering totaled \$1,116,755. In connection with the offering, the broker was granted warrants to purchase, until March 28, 2009, (i) 220,480 common shares of the Company at a price of \$2.50 per share and (ii) 149,334 common shares of the Company at a price of \$3.00 per share. The broker was also granted a right of first refusal for future securities offerings in Canada and investment banking and advisory rights for a period of 18 months. As a condition of the agency agreement, the Company committed to seek a listing on the Toronto Venture Stock Exchange for its common shares. Such listing was approved on December 21, 2007 and the Company's common shares commenced trading on the Exchange December 24, 2007.

- (m) On September 28, 2007, the Company issued 7,000,000 common shares valued at a price of \$2.00 per share for gross proceeds of \$14,000,000 as partial consideration for the acquisition of certain unproved oil and gas properties in Canada and the United States. The Company also committed to issue up to an additional 11,000,000 common shares of the Company upon the achievement of certain milestones in connection with the acquired properties as set out in Note 8.
- (n) On October 3, 2007, the Company closed a second portion of the brokered private placement (“the Offering”) of common shares and flow through common shares that closed on September 28, 2007. Pursuant to the Offering, the Company issued an additional 335,000 flow through common shares at a purchase price of \$3.00 per share for total gross proceeds of \$1,005,000 and granted a warrant to the broker to purchase, until April 3, 2009, 26,800 common shares at a purchase price of \$3.00 per share. Share issue costs associated with this portion of the Offering amounted to approximately \$80,400.
- (o) On October 30, 2007 and November 1, 2007, the Company closed additional brokered private placement financings aggregating 1,450,000 common shares and flow through common shares for aggregate gross proceeds of \$3,650,000. Pursuant to those private placements, the Company issued 1,400,000 common shares at a purchase price of \$2.50 per common share for proceeds of \$3,500,000 and 50,000 flow through common shares at a purchase price of \$3.00 per share for proceeds of \$150,000 and granted warrants to the broker to purchase, until April 30, 2009, 80,000 common shares at a purchase price of \$2.50 per share and 4,000 common shares at a purchase price of \$3.00 per share and, until May 1, 2009, 32,000 common share at a purchase price of \$2.50 per share. Share issue costs associated with this private placement amounted to approximately \$437,631.

The following common shares were reserved for issuance:

| | Exercise Price (\$) | Equivalent Shares Outstanding | Weighted Average Years to Expiry | Option Shares Vested |
|-----------------------------------|------------------------|-------------------------------------|--|-------------------------|
| Stock Options (see summary below) | \$1.28 - \$2.74 | 2,035,000 | 4.03 | Nil |
| Warrants (see summary below) | \$1.50 - \$3.50 | 4,950,514 | 1.80 | - |
| Thunder Acquisition (Note 8) | | <u>11,000,000</u> | | |
| Total Shares Reserved | | <u>17,985,514</u> | | |

Stock Option Plan

The Company has a stock option plan under which it may grant options to its directors, officers, employees and consultants for up to a maximum of 10% of its issued and outstanding common shares at market price at the date of grant for up to a maximum term of five years. Options are exercisable equally over the first three years of the term of the option. On October 23, 2006, the Company granted options for 1,000,000 common shares to five directors of the Company. Also on October 23, 2006 the Company granted options for 280,000 common shares to an officer of the Company, which options were cancelled in December 2006. On December 1, 2006, the Company granted options for 125,000 common shares to a consultant of the Company. During 2007, the Company granted options for 910,000 common shares to an officer, four consultants of the Company and to three senior advisors of the Company. To date, no options have been exercised.

A summary of outstanding options under the plan follows:

| | Expiry Date | Number of Option Shares | Weighted Average Exercise Price |
|------------------------------------|-------------|----------------------------|---------------------------------------|
| Balance December 31, 2004 and 2005 | | - | - |
| Options Granted October 23, 2006 | Oct 23/11 | 1,000,000 | \$ 1.50 |
| Options Granted December 1, 2006 | Dec 1/11 | 125,000 | \$ 1.28 |
| Balance December 31, 2006 | | 1,125,000 | \$ 1.48 |
| Options Granted January 3, 2007 | Jan 3/12 | 280,000 | \$ 1.29 |
| Options Granted February 1, 2007 | Feb 1/12 | 100,000 | \$ 1.35 |
| Options Granted April 2, 2007 | Apr 2/12 | 300,000 | \$ 1.75 |
| Options Granted August 1, 2007 | Aug 1/12 | 130,000 | \$ 2.74 |
| Options Granted December 1, 2007 | Dec 1/12 | 100,000 | \$ 2.58 |
| Balance December 31, 2007 | | <u>2,035,000</u> | <u>\$ 1.62</u> |

Warrants

During 2006 and 2007, the Company, as part of certain private placement financings, issued warrants that are exercisable in common shares of the Company. A summary of such outstanding warrants follows:

| | <u>Exercise Price</u> | <u>Expiry Date</u> | <u>Equivalent Shares Outstanding</u> | <u>Weighted Average Years to Expiry</u> |
|------------------------------------|-----------------------|--------------------|--------------------------------------|---|
| Balance December 31, 2004 and 2005 | - | - | - | - |
| Issued June 30, 2006(g) | \$2.70-\$3.50 | June 30/11 | 1,130,000 | 3.50 |
| Balance December 31, 2006 | | | 1,130,000 | |
| Issued February 20, 2007(i) | \$1.50 | Feb. 20/09 | 420,000 | 1.14 |
| Issued February 20, 2007(j) | \$1.50 | Feb. 20/09 | 440,000 | 1.14 |
| Issued May 10, 2007(k) | \$1.50 | May 10/09 | 2,447,900 | 1.36 |
| Issued September 28, 2007(l) | \$2.50 | Mar. 28/09 | 220,480 | 1.24 |
| Issued September 28, 2007(l) | \$3.00 | Mar. 28/09 | 149,334 | 1.24 |
| Issued October 3, 2007(n) | \$3.00 | Apr. 3/09 | 26,800 | 1.25 |
| Issued October 30, 2007(o) | \$2.50 | Apr. 30/09 | 80,000 | 1.33 |
| Issued October 30, 2007(o) | \$3.00 | Apr. 30/09 | 4,000 | 1.33 |
| Issued November 1, 2007(o) | \$2.50 | May 1/09 | 32,000 | 1.33 |
| Issued 2007 | | | 3,820,514 | 1.30 |
| Balance December 31, 2007 | | | 4,950,514 | 1.80 |

13. STOCK-BASED COMPENSATION

Stock Options

In accordance with Financial Accounting Standards Board Statement ("FASB") No. 123R, the Company uses the Black-Scholes option pricing method to determine the fair value of each option granted and the amount is recognized as additional expense in the statement of earnings over the vesting period of the option. The fair value of each option granted has been estimated using the following average assumptions:

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|--|-------------|-------------|-------------|
| Risk free interest rate | 3.65-4.57% | 3.74-4.11% | - |
| Expected holding period | 3 years | 3 years | - |
| Share price volatility | 75% | 75% | - |
| Estimated annual common share dividend | \$ nil | \$ nil | \$ nil |

The fair value of options granted during the year ended December 31, 2007 totaled \$1,166,060 (2006 - \$ 1,082,000; 2005 \$ Nil). The amount of share-based compensation expense recorded during the year ended December 31, 2007 is \$ 643,934 (2006 - \$ 69,169; 2005 - \$ Nil) and has been included in General and Administrative Expense with a corresponding credit to additional paid in capital. The balance of the fair value of the options to be expensed in future periods is \$1,536,957 (2006 - \$1,012,831; 2005 - \$ Nil) over a vesting period of three years.

14. LOSS PER SHARE

A reconciliation of the numerator and denominator of basic and diluted loss per share is provided as follows:

| | Year Ended December 31, 2007 | Year Ended December 31, 2006 | Year Ended December 31, 2005 (Restated - Note 2) |
|--|------------------------------------|------------------------------------|---|
| Numerator: | | | |
| Numerator for basic and diluted loss per share | | | |
| Net Loss | \$ 2,775,663 | \$ 2,867,374 | \$ 1,133,790 |
| Denominator: | | | |
| Denominator for basic loss per share | | | |
| Weighted average shares outstanding | 95,850,148 | 81,193,240 | 1,896,112 |
| In the money stock options | 841,415 | - | - |
| In the money warrants | 1,218,576 | - | - |
| Contingent Thunder shares | 1,171,233 | - | - |
| Denominator for diluted loss per share | | | |
| Weighted average shares outstanding | 99,081,371 | 81,193,240 | 1,896,112 |
| Basic and diluted loss per share | \$ 0.03 | \$ 0.04 | \$ 0.60 |

The weighted average number of shares outstanding for 2005 and 2006 have been adjusted retroactively for the two 2:1 stock splits that occurred in 2006.

Of the contingent shares related to the property acquisition described in note 8, only 4.5 million shares of the 11 million total contingent shares are assumed to be issued for purposes of the 2007 diluted loss per share calculation. The 7.5 million shares relating to the significant discovery and production milestones have been excluded because their inclusion would be anti-dilutive.

15. COMMITMENTS AND CONTINGENCIES

Thunder Acquisition Commitments

On September 28, 2007 the Company purchased from Thunder certain properties in Canada and the United States in consideration for cash and common shares of the Company as set out more fully in Note 5. As part of the transaction, the Company has committed to issue in the future up to 11 million additional common shares of the Company upon the achievement of certain milestones in connection with the acquired properties, including 6 million shares to be issued as follows: 2 million shares upon completion of a 2007/08 seismic program by June 30, 2008; 1 million shares upon the spudding of a shallow depth well (1,500 meters TD) by March 31, 2009; 1.5 million shares upon the spudding of a medium depth well (2,500 meters TD) before lease expiry in 2009 and 1.5 million shares upon conversion of any part of EL 413 to a Significant Discovery Lease. If, as a result of the Company's exploration and development activities on the acquired properties, reserves in place exceed 100 million barrels, then, for each excess 10 million barrels in place, 100,000 additional shares could be issued, up to a maximum of 5 million additional shares.

Canadian Flow-through Share Commitments

Of the private placement shares sold in the September and October, 2007 financings, 2,251,670 were sold at a purchase price of \$3.00 for gross proceeds of \$6,755,010 and on the basis that the Company would provide the purchaser a Canadian tax flow through deduction. In order to provide such flow through share tax deduction benefits to the investors, the Company has committed to expend the proceeds on eligible capital expenditures in Canada prior to December 31, 2008 and renounce such expenditures to the flow through share investors. In January, 2008, these expenditures were renounced effective December 31, 2007. Failure to incur such expenditures prior to December 31, 2008 could result in a liability of the Company for any Canadian tax consequences to the investors.

Potential Litigation

There is a threatened litigation matter which comprises a potential claim by a partner against the Company regarding the terms of the EL 413 North West Territory farm-out agreement entered into in 2006. The potential outcome and loss to the Company is unknown; however, in the opinion of management, this matter is not expected to result in any material adverse impact on the Company's financial position.

16. FINANCIAL INSTRUMENTS

The Company, as part of its operations, carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, credit or currency risks arising from these financial instruments except as otherwise disclosed.

The Company's financial instruments, including cash and short term deposits, accounts receivable, accounts payable and accrued liabilities are carried at values that approximate their fair values due to their relatively short maturity periods.

17. RELATED PARTY TRANSACTIONS

On December 22, 2005, officers and directors of the Company purchased 10,200,000 common shares of the Company at \$0.02 per share for \$204,000. These shares were not issued by the transfer agent until January 13, 2006 and were reflected in shareholders' equity as part of the caption "Shares to be Issued" at December 31, 2005.

On December 28, 2005, a director of the Company purchased 50,000 common shares of the Company at \$.50 per share for \$25,000. These shares were not issued by the Transfer Agent until January 13, 2006 and were reflected in shareholders' equity as part of the caption "Shares To Be Issued" at December 31, 2005.

During the year ended December 31, 2006, the Company paid \$61,087 (2005 - \$131,156) to companies which, at that time, beneficially owned 9.3% (2005 - 9.1%) of the Company for investor relations services. Of this amount, investor relations services in the amount of \$61,087 (2005 - \$54,793) are included in Administrative Expenses and private placement commissions of \$ Nil (2005 - \$26,363) are included as share issue costs in Additional Paid In Capital.

During the year ended December 31, 2006, the Company issued 2,000,000 common shares of the Company in consideration for corporate development services rendered to the Company by an individual, who beneficially owned 9.3% of the Company. The shares were valued at market price of \$.05 per share and were recorded as General and Administrative Expense and an addition to Additional Paid in Capital.

For the year ended December 31, 2007, the Company paid \$108,624 (2006 - \$83,259; 2005 - \$40,744) to Sicamous Oil & Gas Consultants Ltd., a company owned by the current Chief Executive Officer, President & Chief Operating Officer of the Company for consulting services rendered to the Company. These amounts were charged to General and Administrative Expense.

For the year ended December 31, 2007, the Company paid \$51,125 (2006 - \$53,247; 2005 - \$27,897) to MHC Corp., a company owned by the former Chief Executive Officer of the Company for consulting services rendered to the Company. These amounts were charged to General and Administrative Expense. As of December 1, 2007, this individual resigned as Chief Executive Officer.

For the year ended December 31, 2007, the Company paid \$86,550 (2006 and 2005 - \$ nil) to Harbour Oilfield Consulting Ltd., a company owned by the Vice President - Operations of the Company for consulting services rendered to the Company. Of these amounts \$27,378 (2006 and 2005 - \$ nil) was capitalized to Unproved Oil and Gas Properties and \$59,172 (2006 and 2005 - \$ nil) was charged to General and Administrative Expense

For the year ended December 31, 2007, the Company paid \$128,711 (2006 and 2005 - \$ nil) to the current Chief Financial Officer of the Company for services rendered to the Company. These amounts were charged to General and Administrative Expense.

For the year ended December 31, 2006, the Company paid \$29,508 (2005 - \$ nil) to the prior Chief Financial Officer of the Company for services rendered by her.

These related party transactions were in the normal course of business and agreed to by the related parties and the Company based on negotiations and Board approval and accordingly had been measured at the exchange amounts.

As at December 31, 2007, 2006 and 2005, no other amounts were owing to any related parties for services rendered.

18. SEGMENTED INFORMATION

The Company's two geographical segments are the United States and Canada. Both segments use accounting policies that are identical to those used in the consolidated financial statements. The Company's geographical segmented information is as follows:

| | Year Ended December 31, 2007 | | |
|-------------------------------------|------------------------------|-------------|-------------|
| | U. S. | Canada | Total |
| Income during the Evaluation Period | \$ - | 225 | 225 |
| Net Loss | (57,193) | (2,718,470) | (2,775,663) |
| Capital Assets | 7,023,346 | 17,019,659 | 24,043,005 |
| Total Assets | 7,549,538 | 27,141,230 | 34,690,768 |
| Capital Expenditures | 6,458,511 | 16,471,815 | 22,930,826 |

| | Year Ended December 31, 2006 | | |
|-------------------------------------|------------------------------|-----------|-----------|
| | U. S. | Canada | Total |
| Income during the Evaluation Period | \$ - | 27,134 | 27,134 |
| Net Loss | 20,668 | 2,846,706 | 2,867,374 |
| Capital Assets | 564,835 | 761,221 | 1,326,056 |
| Total Assets | 650,953 | 2,056,122 | 2,707,075 |
| Capital Expenditures | 432,835 | 2,002,915 | 2,435,750 |

| | Year Ended December 31, 2005 | | |
|-------------------------------------|------------------------------|-----------|-----------|
| | U. S. | Canada | Total |
| Income during the Evaluation Period | \$ - | - | - |
| Net Loss | - | 1,133,790 | 1,133,790 |
| Capital Assets | 132,000 | 132,904 | 264,904 |
| Total Assets | 132,000 | 424,330 | 556,330 |
| Capital Expenditures | 132,000 | 134,139 | 266,139 |

19. CHANGES IN NON-CASH WORKING CAPITAL

| | Year Ended Dec. 31, 2007 | Year Ended Dec. 31, 2006 | Year Ended Dec. 31, 2005 | Cumulative Since Inception April 7, 2004 to Dec. 31, 2007 |
|-------------------------------|-----------------------------|-----------------------------|-----------------------------|--|
| Operating Activities: | | | | |
| Accounts Receivable | \$ (650,850) | (20,483) | (12,676) | (683,686) |
| Prepaid Expenses and Deposits | (49,613) | 9,955 | (57,850) | (97,508) |
| Accounts Payable | 11,471 | 91,852 | 21,553 | 124,876 |
| Accrued Liabilities | 28,891 | (36,395) | 72,786 | 101,955 |
| Other | - | - | - | 25,000 |
| Total | \$ (660,101) | 44,929 | 23,813 | (529,323) |

Investing Activities:

The total changes in investing activities non-cash working capital accounts, which is detailed below, pertains to capital asset additions and has been included in that caption in the Statement of Cash Flow:

| | | | | |
|-------------------------------|---------------------|------------------|---------------|------------------|
| Accounts Receivable | \$ 122,572 | (653,129) | - | (530,567) |
| Prepaid Expenses and Deposits | 155,976 | (138,943) | - | 17,033 |
| Accounts Payable | 867,152 | 441,778 | 7,000 | 1,308,930 |
| Accrued Liabilities | 232,542 | 200,746 | 44,360 | 433,288 |
| Total | \$ 1,378,242 | (149,558) | 51,360 | 1,228,684 |

Financing Activities:

The total changes in financing activities non-cash working capital accounts, which is detailed below, pertains to shares issued and issuable and has been included in that caption in the Statement of Cash Flow:

| | | | | |
|-------------------------------|-------------------|-----------------|---------------|----------------|
| Prepaid Expenses and Deposits | \$ - | - | (10,000) | (10,000) |
| Accounts Payable | 83,396 | 30,072 | - | 113,468 |
| Accrued Liabilities | 220,000 | - | - | 220,000 |
| Convertible Debt | - | (41,189) | 41,189 | - |
| Total | \$ 303,396 | (11,117) | 31,189 | 323,468 |

20. SUBSEQUENT EVENT

On February 8, 2008, the Company purchased an additional interest in the Lucy, B.C. property for cash consideration of approximately \$417,000.

ITEM 9. CONTROLS AND PROCEDURES

During the process of preparing for the Company's third quarter 2006 financial report the CFO identified errors in the accounting records that originated in the fourth quarter of 2005, the first quarter ended March 31, 2006 and the second quarter ended June 30, 2006. The errors arose as a result of a lack of adequate procedures and documentation necessary to ensure that records were maintained in reasonable detail to fairly reflect the transactions of the Company in the start up phase of operations.

After discussing these matters with management the CFO, at that time, recommended to the Audit Committee that previously reported financial results be restated to reflect correction of these errors. The Audit Committee agreed with this recommendation. Pursuant to the recommendation of the Audit Committee, the Board of Directors determined at its meeting on November 3, 2006, that previously reported results for the Company be restated. On December 14, 2006 amended financial statements for the above noted periods were filed.

Evaluation of Disclosure Controls and Procedures

During the third quarter of 2006, the CFO, at that time, evaluated the disclosure controls and procedures and identified a lack of sufficient procedures, documentation and qualified personnel to ensure the records fairly reflected the transactions of the Company resulting in a material weakness in the Company's internal control over financial reporting. Solely as a result of the material weakness, management concluded that the disclosure controls and procedures were not effective as of December 31, 2005, March 31, 2006 or June 30, 2006.

Remediation of Material Weakness in Internal Control

During December, 2006 and early 2007, the company hired a Controller, a new CFO, a Vice-President Operations and additional qualified personnel. The new staff has implemented adequate procedures and documentation necessary to ensure the records fairly reflect the transactions of the Company.

In July, 2007, the Company initiated a review of its corporate policies and procedures with a goal of having the Company become fully SOX compliant by year end 2007. Such policies and procedures have been implemented and others strengthened. Testing of such policies and procedures has been undertaken during the last quarter of 2007 and the first quarter of 2008.

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15-d-15(e)) as of the end of the period covered by this report. They concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were adequate and effective in ensuring that material information relating to the Company would be made known to them by others within those entities, particularly during the period in which this report was being prepared. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f)). Under the supervision and with the participation of our management, including our principal executive officer (CEO) and principal financial officer (CFO), we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Management identified the following material weaknesses during its assessment of our internal control over financial reporting as at December 31, 2007.

Segregation of Duties and Access to Critical Accounting Systems

We had a material weakness related to certain employees who had incompatible responsibilities within all significant processes affecting financial reporting. We also had a material weakness resulting from our failure to implement controls to restrict access to financially significant systems or to monitor access to those systems, which resulted in conflicting access and/or inappropriate segregation of duties. These material weaknesses affect all significant accounts.

Our management has discussed the material weaknesses described above and other deficiencies with our Audit Committee. In an effort to remediate the identified material weaknesses, we have initiated plans to undertake the following remediation activities:

We plan to establish segregation of duties matrices and review the job responsibilities of our personnel to evaluate how to create appropriate segregation of duties, to the extent economically feasible given the size and complexity of our operation. To the extent possible we plan to limit user access to segregate duties within our IT systems. Where that is not possible, we plan to implement controls to verify that incompatible functions performed by the same individual are appropriately monitored.

In addition, we plan to add a process for the IT department to monitor access rights according to the segregation of duties matrices and provide periodic exception reports for management.

We have documented this assessment and made this assessment available to our independent registered Chartered Accountants. We recognize that all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2007, has been audited by Meyers Norris Penny LLP, independent registered Chartered Accountants, as stated in their report which is on page 16 of this Form 10-K. Meyers Norris Penny LLP also audited our Financial Statements as stated in their report which is on page 19 of this Form 10-K.

CHANGES IN INTERNAL CONTROLS

There have been no changes in our internal control over financial reporting during our fiscal quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

B. Directors and Executive Officers

| <u>Name</u> | <u>Age</u> | <u>Title</u> |
|--------------------|------------|--|
| Mark Hlady | 48 | Chairman of the Board |
| William Tighe | 56 | CEO, COO, President and Director |
| Peter Schriber | 65 | Director |
| Glenn Watt | 32 | Vice President Operations and Director |
| Marvin Jones | 70 | Director |
| William Brimacombe | 64 | Chief Financial Officer |

Mr. Mark Hlady is the Chairman of the Board of the Company. Mr. Hlady also held the position of Chief Executive Officer of the Company from September, 2005 to November, 2007 and Chief Financial Officer of the Company from September, 2005 to August, 2006 and from November to December, 2006. Mr. Hlady is a director of Critical Outcome Technologies Inc. and International Petro Real Oil Corporation (IOC), both of which are publicly traded companies and has been President of IOC since January, 2007. Since 2005, Mr. Hlady has also been President of Global Sport Marketing Ltd., a company engaged in the business of sports marketing. Prior to September, 2005, Mr. Hlady was Chief Executive Officer of Fortress Financial Corp., a private Alberta corporation. From June, 1993 to November, 2004, Mr. Hlady served three terms as Member of the Alberta Provincial Legislative Assembly for Calgary-Mountain View constituency. During his term in the Alberta Legislature Mr. Hlady served on many oil and gas and energy related committees including; Chair of the Standing Policy Committee on Energy and Sustainable Development for the Province of Alberta, Standing Policy Committee for Natural Resources of Alberta, Canadian Energy Research Institute (CERI), US Energy Council - Foreign Representative (Canada), Alberta Representative to the Alaska Highway Pipeline Committee, Alberta/Alaska Bilateral Council and Government Representative to the Alberta Land Surveyors Association. Mr. Hlady has a Bachelor of Physical Education from the University of Calgary.

Mr. William Tighe has held the positions of Chief Operating Officer, President and Director of the Company since September, 2005 and Chief Executive Officer of the Company since December, 2007. Since 2005, Mr. Tighe has focused on developing Kodiak's business interests. His past experience includes approximately thirty years in management, operations, maintenance, and more recently major/minor projects for both Canadian and other international energy companies. These positions were in a variety of field settings from the heavy oil industry, sour gas/liquids plants in Alberta and British Columbia and the sub-arctic in Canada, to design offices, construction, C&SU and operation of large gas/liquids processing operations in southeast Asia. Since 2004, Mr. Tighe has worked for Suncor Energy Ltd. as a Business Services Manager, Growth Planning and Development. From 2000 until 2004 Mr. Tighe worked for Petro China International as Operations Development and Commissioning Manager. Prior to that, Mr. Tighe had extensive experience both in Alberta and internationally in the oil and gas industry. Mr. Tighe attended the University of Calgary where he studied general science and computer science. He holds an Interprovincial Power Engineering Certification II Class.

Mr. Glenn Watt has been a director of the company since November 28, 2005 and Vice President Operations of the Company since April, 2007. Prior to joining Kodiak, Mr Watt has worked primarily in the Western Canadian Sedimentary Basin and from May, 2003 to March, 2007, was drilling and completions superintendent for a large Canadian oil and gas royalty trust. Prior to that, he worked for a major oil & gas company as a completions superintendent. He has additional field experience working on drilling rigs in Alberta and British Columbia. Mr. Watt has an honors diploma in Petroleum Engineering Technology from the Northern Alberta Institute of Technology and a Bachelor of Applied Petroleum Engineering Technology Degree from the Southern Alberta Institute of Technology.

Mr. Peter Schriber has been a director of the company since November 28, 2005. Mr. Schriber is currently an independent financial consultant. Mr. Schriber is active in mergers and acquisitions as well as debt and equity financing for private and public companies. Prior to 1999, Mr. Schriber was a director and partner of a Vancouver based brokerage firm. Prior to that Mr. Schriber was a Vice President and Manager of Corporate Lending with the Canadian division of a Swiss Bank. Mr. Schriber has a degree in Commerce from a Swiss Institution and he graduated as a Fellow of the Institute of Canadian Bankers. Mr. Schriber is also a member of the Canadian Bankers Association.

Mr. Marvin Jones has been a director of the Company since April 24, 2006 and has more than forty-five years of North American and international oil and gas experience, with the last thirty years being at the management level in oil and gas drilling and services industries. Mr. Jones is a past President of Trinidad Drilling, a past Vice President of Challenger International Services, and a past Vice President of Thomson Industries. He is a recipient of the CAODC Honorary Life Membership Award and is a past President of CAODC and many other charitable, sports and public organizations.

Mr. William E. Brimacombe is a Canadian Chartered Accountant and since January, 2007 has been Chief Financial Officer of the Company. From 2000 to 2006, Mr. Brimacombe was Vice-President Finance of AltaCanada Energy Corp., a publicly traded Canadian oil and gas company. Prior thereto, Mr. Brimacombe has over thirty years financial experience working for a number of public and private oil and gas companies with operations in Canada, the United States and other countries, including experience as an independent financial consultant during the years 1988 to 2000. Mr. Brimacombe is a member of the Institute of Chartered Accountants of Alberta.

During the last five years, no officer or director of the Company has been involved in any legal, bankruptcy or criminal proceedings or violated any federal, state or provincial securities or commodities laws or engaged in any activity that would limit their involvement in any type of business, including securities or banking activities.

COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who own more than 10% of the outstanding shares of the Company's Common Stock, to file initial reports of beneficial ownership and reports of changes in beneficial ownership of shares of Common Stock with the Commission. Such persons are required by Commission regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to the Company during the year ended December 31, 2007, and upon a review of Forms 5 and amendments thereto furnished to the Company with respect to the year ended December 31, 2007, or upon written representations received by the Company from certain reporting persons that no Forms 5 were required for those persons.

AUDIT COMMITTEE AND FINANCIAL EXPERT

During the year end December 31, 2007, the audit committee met five times. The audit committee's role is financial oversight. Our management is responsible for the preparation of our financial statements and our independent registered public accounting firm is responsible for auditing those financial statements. The audit committee is not providing any special assurance as to our financial statements or any professional certification as to the registered independent accounting firm's work.

The audit committee is directly responsible for the appointment, compensation, retention and oversight of Kodiak's independent registered accounting firm. The committee, among other things, also reviews and discusses Kodiak's audited financial statements with management.

Our audit committee is comprised of three directors: Peter Schriber and Marvin Jones, who are independent and Glenn Watt. Our board has determined Peter Schriber, our Audit Committee Chairman, qualifies as an "audit committee financial expert" within the definition established by the SEC and he is an independent director.

CODE OF ETHICS

A code of ethics relates to written standards that are reasonably designed to deter wrongdoing and to promote:

- 1) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.
- 2) Full, fair, accurate, timely and understandable disclosure in reports and documents that are filed with, or submitted to the Securities and Exchange Commission and in other public communications made by the Company.
- 3) Compliance with applicable government laws, rules and regulations
- 4) The prompt internal reporting of violations of the code to an appropriate person or persons identified in the code; and
- 5) Accountability for adherence to the code.

In October, 2007, the Company adopted a formal code of business conduct. The board of directors evaluated the business of the Company and its personnel and has determined that its business operations are operated by a growing number of persons, some of who are also officers, directors and employees of the Company and others who are independent contractors. Although general rules of fiduciary duty and federal, state and provincial criminal, business conduct and securities laws are adequate ethical guidelines, a formal written code of business conduct would provide additional ethical standards of conduct to which the Company's personnel should comply.

ITEM 11. EXECUTIVE COMPENSATION.

COMPENSATION OF EXECUTIVE OFFICERS

The following table summarizes compensation of our Chief Executive Officer, Chief Financial Officer, President and Vice President Operations for the fiscal year ended December 31, 2007.

Summary Compensation Table

| Name and Principal Position | Year | Salary | Stock Awards | Option Awards(5) | Non-Equity Incentive Plan Compensation | Change in Pension Value and Nonqualified Deferred Compensation Earnings | All Other Compensation | Total |
|--|------|------------|--------------|------------------|--|---|------------------------|------------|
| Mark Hlady, Chairman & CEO (1) | 2007 | \$ 51,125 | \$ 0 | \$ 72,267 | \$ 0 | \$ 0 | \$ 0 | \$ 123,392 |
| William S. Tighe, President, CEO and COO (2) | 2007 | \$ 108,624 | \$ 0 | \$ 72,267 | \$ 0 | \$ 0 | \$ 0 | \$ 180,891 |
| William E. Brimacombe, CFO (3) | 2007 | \$ 128,711 | \$ 0 | \$ 67,481 | \$ 0 | \$ 0 | \$ 0 | \$ 196,192 |
| Glenn Watt, Vice President Operations (4) | 2007 | \$ 86,550 | \$ 0 | \$ 54,200 | \$ 0 | \$ 0 | \$ 0 | \$ 138,750 |

- 1) Mr. Hlady's compensation was paid to MHC Corporation, a company owned by Mr. Hlady for services rendered by him as CEO of the Company for the period from January 1 to November 30, 2007.
- 2) Mr Tighe's compensation was paid to Sicamous Oil and Gas Consultants Ltd., a company owned by Mr. Tighe, for services rendered by him as President and COO for the year and CEO for the month of December, 2007.
- 3) Mr. Brimacombe's compensation was paid directly to him for services rendered by him as Chief Financial Officer of the Company for the period from January 3 to December 31, 2007.
- 4) Mr. Watt's compensation was paid to Harbour Oilfield Consulting Ltd., a company owned by Mr. Watt for services rendered by him as Vice President Operations of the Company, for the period from April 1 to December 31, 2007.
- 5) This is the estimated 2007 cost of stock options granted based on the Black-Scholes valuation method.

Outstanding Equity Awards at Fiscal Year-End

| Name | Option Awards | | | | | Stock Awards | | | |
|-----------------------|---|---|---|-----------------------|------------------------|---|--|---|---|
| | Number of Securities Underlying Unexercised Options Exercisable | Number of Securities Underlying Unexercised Options | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options | Option Exercise Price | Option Expiration Date | Number of Shares or Units of Stock that have not Vested | Market Value of Shares or Units of Stock that have not Vested(1) | Equity Incentive Plan Awards: Number of Unearned Shares, Units or other Rights that have not Vested | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have not Vested |
| Mark Hlady | 66,666 | 133,334(1) | - | \$ 1.50 | 10/23/11 | 0 | 0 | 0 | 0 |
| William S. Tighe | 66,666 | 133,334(1) | - | \$ 1.50 | 10/23/11 | 0 | 0 | 0 | 0 |
| Glenn Watt | 66,666 | 133,334(1) | - | \$ 1.50 | 10/23/11 | 0 | 0 | 0 | 0 |
| William E. Brimacombe | - | 280,000(2) | - | \$ 1.29 | 1/3/12 | 0 | 0 | 0 | 0 |

- 1) Options vest 66,667 on Oct 23/08 and 66,667 on Oct 23/09.
- 2) Options vest 93,333 on Jan 03/08; 93,334 on Jan 03/09 and 93,334 on Jan 3/10.

COMPENSATION DISCUSSION AND ANALYSIS

Overview of Compensation Program and Philosophy

The Company has three executive officers, two of whom are the Company's directors. The Board of Directors serves as the Company's compensation committee, initiates and approves most compensation decisions. Annual bonuses for executives are determined by the Board of Directors.

The goal of the compensation program is to adequately reward the efforts and achievements of executive officers for the management of the Company. The Company has no pension plan and no deferred compensation arrangements. The Company has not used a compensation consultant in any capacity.

We have formal consulting contracts with Mr. William Tighe, Mr. Mark Hlady, Mr. Glenn Watt and Mr. William Brimacombe or their consulting companies. During 2007, Sicamous Oil and Gas Consultants Ltd., a company owned by Mr. William Tighe was paid Cdn \$8,000 to \$10,000 per month and MHC Corporation, a company owned by Mr. Hlady, was paid Cdn \$5,000 per month for the period January to November, 2007. Harbour Oilfield Consulting Ltd., a company owned by Mr. Watt, was paid Cdn \$10,000 per month for the period April to December, 2007. Mr. William Brimacombe was paid Cdn. \$85 per hour for the period January to June, 2007 and Cdn. \$100 per hour for the period July to December, 2007. On January 3, 2007, Mr. Brimacombe was granted an option to purchase 280,000 common shares of the Company in accordance with the terms of the stock option plan. His option vests 1/3 in each of the first three years of its five year term. No other options were granted to executive officers during the year.

Compensation of Directors

Directors of the corporation are not paid any cash compensation. We reimburse each of our directors for reasonable out-of-pocket expenses that they incur in connection with attending board or committee meetings.

On January 4, 2006, the Company adopted a stock-based compensation plan, under which each director of Kodiak would receive 120,000 options upon becoming a director and an additional 80,000 options in the second year and 200,000 options in the third year for each year or part of a year served as a director. On July 19, 2006 the stock option plan was approved by the shareholders of the Company. On October 23, 2006, options granted to directors were adjusted to 200,000 shares per director. The exercise price of such options is the market price per share on the date of grant.

No stock options were granted to any directors during the year. No named directors or executive officers exercised any stock options during fiscal 2007, 2006 or 2005.

DIRECTOR COMPENSATION TABLE

The table below summarizes the compensation paid by us to our non employee directors during the year ended December 31, 2007.

| <u>Name</u> | <u>Fees Earned or Paid in Cash</u> | <u>Stock Awards (1)</u> | <u>Option Awards (2)</u> | <u>Non-Equity Incentive Plan Compensation</u> | <u>Change in Pension Value and Nonqualified Deferred Compensation Earnings</u> | <u>All Other Compensation</u> | <u>Total</u> |
|----------------|--|-----------------------------|------------------------------|---|--|-----------------------------------|--------------|
| Glenn Watt (3) | \$ 0 | \$ N/A | \$ 18,067 | N/A | N/A | \$ 0 | \$ 18,067 |
| Marvin Jones | \$ 0 | \$ N/A | \$ 72,267 | N/A | N/A | \$ 0 | \$ 72,267 |
| Peter Schriber | \$ 0 | \$ N/A | \$ 72,267 | N/A | N/A | \$ 0 | \$ 72,267 |

(1) No stock awards were made during 2007, 2006 or 2005.

(2) This is the estimated 2007 cost of stock options granted October 23, 2006 based on the Black-Scholes valuation method.

(3) Mr. Watt became Vice President –Operations of the Company as at April 1, 2007. Only his compensation to that date is shown in the above Director Compensation Table.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of the date of this report, information relating to the beneficial ownership of our common stock by those persons known to us to beneficially own more than 5% of our capital stock, by each of our directors, proposed directors and executive officers, and by all of our directors, proposed directors and executive officers as a group. The address of each person is set out in the footnotes to the table.

| Name of Beneficial Owner or Director | Number of Shares of Class | Percent of Class (1) |
|---|------------------------------|-------------------------|
| Mark Hlady, (2) | 3,400,000 | 3.19% |
| William Tighe (3) | 12,900,000 | 12.09% |
| Glenn Watt (4) | 9,000,000 | 8.44% |
| Peter Schriber (5) | 3,000,000 | 2.81% |
| Marvin Jones (6) | 180,000 | * |
| William Brimacombe (7) | Nil | * |
| Thunder River Energy, Inc. (8) | 7,000,000 | 6.56% |
| All directors and executive officers as a group (six persons) | 31,480,000 | 29.51% |

* Less than 1%

(1) Based on 106,692,498 common shares outstanding as at December 31, 2007 and as at the date of this report.

(2) Shares held directly by Mr. Hlady, a director of the Company, whose address is 1420 9th St. N.W., Calgary, AB. T2M 3L2.

(3) Shares held by Sicamous Oil and Gas Consultants Ltd. ("Sicamous"), a company owned by Mr. Tighe, a director and CEO, COO and President of the Company and his wife Dianne Tighe. The address for Mr. Tighe and Sicamous Oil and Gas Consultants Ltd. is 245 Citadel Way N.W., Calgary, AB, T3G 4W8.

(4) Comprised of 6,000,000 shares held directly by Mr. Watt, a director and Vice President-Operations of the Company and 3,000,000 shares held by 697580 Alberta Ltd., a company wholly-owned by Kathleen, Jana and Ryan Tighe and of which Mr. Watt is the sole officer and director. The address for Mr. Watt and 697580 Alberta Ltd. is 3405 15th St. S.W., Calgary, AB, T2T 5X3.

(5) Shares held directly by Peter Schriber, a director of the Company, whose address is Gotthardstrasse 38, ch-8002 Zurich, Switzerland.

(6) Shares held directly by Marvin Jones, a director of the Company, whose address is #4, 1901 Varsity Estates Drive N. W., Calgary, AB T3B 4T7.

(7) Shares held directly by William Brimacombe, CFO of the Company, whose address is 68 Arbour Wood Close N.W., Calgary, AB T3G 4A8.

(8) Shares held directly by Thunder River Energy, Inc., whose address is P.O. Box 636, Station "M", Calgary, AB T2J 2J3.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

A former officer-director acquired 150,000 shares, post split, of the common share capital issued at the emergence from bankruptcy on April 7, 2004, for \$25,000.

Officers and Directors of the Company purchased 10,200,000 common shares of the Company on December 22, 2005 at \$0.02 per share for \$204,000. These shares were not issued by the transfer agent until January 13, 2006 and were reflected in shareholders' equity as part of the caption "Shares to be Issued" at December 31, 2005. A director of the Company purchased 50,000 shares of the common capital stock of the Company on December 28, 2005 at \$0.50 per share for \$25,000. These shares were not issued by the Transfer Agent until January 13, 2006 and were reflected in shareholders' equity as part of the caption "Shares to be Issued" at December 31, 2005.

During the year ended December 31, 2006, the Company paid \$61,087 (2005 - \$131,156) to companies which, at that time, beneficially owned 9.3% (2005 - 9.1%) of the Company for investor relations services. Of this amount, investor relations services in the amount of \$61,087 (2005 - \$54,793) are included in Administrative Expenses and private placement commissions of \$ Nil (2005 - \$26,363) are included as share issue costs in Additional Paid In Capital.

During the year ended December 31, 2006, the Company issued 2,000,000 common shares in consideration for corporate development services rendered to the Company by an individual, who beneficially owned 9.3% of the Company. The shares were valued at market price of \$.05 per share and were recorded as General and Administrative Expense and an addition to Additional Paid in Capital.

During December, 2006, a director of the Company purchased 5,000 units comprising three flow-through shares and one common share at a price per unit of \$6.40 Cdn. (\$1.60 Cdn. per share). These shares were classified as Shares To Be Issued as at December 31, 2006 as the share certificates were not issued until February, 2007.

For the year ended December 31, 2007, the Company paid \$108,624 (2006 - \$83,259; 2005 - \$40,744) to Sicamous Oil & Gas Consultants Ltd., a company owned by the current Chief Executive Officer, President & COO of the Company for consulting services rendered by him.

For the year ended December 31, 2007, the Company paid \$51,125 (2006 - \$53,247; 2005 - \$27,897) to MHC Corp., a company owned by the Chief Executive Officer of the Company for consulting services rendered by him. At December 1, 2007, this individual resigned as Chief Executive Officer.

For the year ended December 31, 2007, the Company paid \$86,550 (2006 and 2005 \$ nil) to Harbour Oilfield Consulting Ltd., a company owned by the Vice President - Operations of the Company for consulting services rendered by him.

For the year ended December 31, 2007, the Company paid \$128,711 (2006 and 2005 - \$ nil) to the current Chief Financial Officer of the Company for services rendered by him.

For the year ended December 31, 2006, the Company paid \$29,508 (2005 - \$ nil) to the prior Chief Financial Officer of the Company for services rendered by her.

As at December 31, 2007, 2006 and 2005, no other amounts were owing to any related parties for services rendered.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

The Company paid audit fees to Meyers Norris Penny LLP for December 31, 2006 totaling \$104,370 and estimate the 2007 fees to be \$170,000. The 2007 fees include approximately \$70,000 relative to Internal Controls & Financial Reporting. The 2006 fees include approximately \$86,782 relating to the review and restatements for December 31, 2005, March 31, 2006 and June 30, 2006.

Audit-Related Fees

None

Tax Fees

None

All Other Fees

None

Audit committee policies & procedures

The above services were approved by the company's Audit Committee of the Board of Directors.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a. Exhibits

- 10.1 Stock Purchase Agreement dated December 29, 2005, among Kodiak Energy and various shareholders (incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the Commission on December 29, 2005)
- 10.2 Letter dated December 12, 2007 from the Commission to the Company.
- 23.1 Consent of Meyers Norris Penny LLP
- 31.1 Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002. (1)
- 31.2 Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.(1)
- 32.1 Certification of Chief Executive Officer, pursuant to 18 United States Code Section as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer, pursuant to 18 United States Code Section as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.

b. Reports on Form 8-K filed in the quarter

On October 3, 2007 we filed an 8K under item 1.01 Entry into a Material Definitive Agreement; Item 3.02 Unregistered Sales of Equity Securities and Item 8.01 Other Events

On November 6, 2007 we filed an 8K under item 3.02 Unregistered Sales of Equity Securities and Item 9.01 Financial Statements and Exhibits

On December 5, 2007 we filed an 8K under item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers and Item 9.01 Financial Statements and Exhibits

On December 21, 2007 we filed an 8K under item 8.01 Other Events and Item 9.01 Financial Statements and Exhibits

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

/s/ Mark Hlady
Mark Hlady, Chairman of the Board

/s/ William Tighe
William Tighe
Chief Executive Officer, Chief Operating Officer, President and Director

/s/ William Brimacombe
William Brimacombe, Chief Financial Officer

/s/ Glenn Watt
Glenn Watt, Vice President Operations and Director

/s/ Peter Schriber
Peter Schriber, Director

/s/ Marvin J. Jones
Marvin J. Jones, Director

Kodiak Energy, Inc.

EXHIBIT 10.2

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Division of
Corporate Finance
Mail Stop 7010

December 12, 2007

William Tighe
Chief Executive Officer
Kodiak Energy, Inc.
734 7th Avenue S.W.
Calgary, Alberta, Canada T2P 3P8

Re: Kodiak Energy, Inc.
Registration Statement on Form SB-2
Filed November 13, 2007
File No. 333-147325

Annual Report on Form 10-KSB
Filed April 4, 2007
File No. 333-82434

Dear Mr. Tighe:

We have limited our review of the above filings to those issues we have addressed in our comments. Where indicated, we think you should revise your document in response to these comments. If you disagree, we will consider your explanation as to why our response is inapplicable. Please be as detailed as necessary in your explanation. In some of our comments, we may ask you to provide us with information so we may better understand your disclosure. After reviewing this information, we may raise additional comments.

Please understand that the purpose of our review is to assist you in your compliance with the applicable disclosure requirements and to enhance the overall disclosure in your filings. We look forward to working with you in these respects. We welcome any questions you may have about our comments or any other aspect of our review. Feel free to contact us at the telephone numbers listed at the end of this letter.

Form SB-2 filed November 13, 2007

- 1) Please update your financial statements and other financial discussion. Refer to Rule 3-12 of Regulation S-X.
 - 2) We note your announcement that, effective December 3, 2007, Mark Hlady resigned from the position of chief executive officer and William Tighe became your chief executive officer. Please update the disclosure throughout your filing to reflect such changes.
-

Compensation discussion and analysis, page 33

- 3) You state that Sicamous Oil & Gas Consultants, Ltd., a company owned by Mr. Tighe, is paid Cdn. \$10,000 per month pursuant to a consulting agreement. Section 3.1 of your agreement with Sicamous Oil & Gas Consultants, Ltd. (filed as Exhibit 10.8 to your registration statement), provides for payment of \$5,000 per month for services provided by Mr. Tighe during the term of such agreement. Please reconcile this apparent inconsistency.

Signatures

- 4) Identify each person occupying more than one of the specified capacities, and make clear who is signing in the capacity of your principal accounting officer or controller. See Instructions 1 and 2 to Signatures, Form SB-2.

Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006

General

- 5) It appears that your public float as of December 31, 2006, exceeded \$25 million. Please tell us how you have evaluated whether you remain eligible to continue to use the Small Business Issuer forms. Refer to Item 10(a)(2) of Regulation S-B for additional guidance.

Business, page 3

- 6) Please clarify whether you have proved reserves as defined by Rule 4-10(a) of Regulation S-X, as of September 30, 2007 and December 31, 2006. To the extent you do not have any proved reserves, address the following:
- Revise your filing throughout to label yourself as an exploration-stage company, not a development stage company;
 - Revise the caption on your statements of operations to characterize revenues as income during the evaluation period, as the use of revenues implied that amounts are derived from a proved property;
 - Disclose in the footnotes to the financial statements that you will begin recording revenue once it has been determined that you have proved reserves; and
 - Clarify on page 13 with regards to the Province/Granlea property whether that property had been evaluated in light of its production during 2006.
-

- 7) We note the disclosure under this section indicating that you are a development stage oil and gas company with no assets and liabilities. However, your balance sheet as of December 31, 2006, indicated that you have assets and liabilities. Revise the disclosure under this section to resolve this apparent inconsistency.

Description of Property, page 8

- 8) Explain to us where you have provided disclosure responsive to each of the items identified in Industry Guide 2.

Management's Discussion and Analysis or Plan of Operation, page 12

Province/Granlea – Southeast Alberta, page 13

- 9) We note that a substantial increase in water rates resulted in the well being shut in until it is re-evaluated. If there is a reasonable likelihood that a material impairment will be recorded upon the re-evaluation of the Province/Granlea wells, please expand your MD&A to describe the impact an impairment would have on your financial statements. Refer to FRC 501.12.b for additional guidance.
- 10) We note on page 28 that you recorded a writedown of approximately \$1.4 million as a result of application of the ceiling test. Please expand your MD&A to describe the specific reasons or factors underlying the impairment.

Financial Statements, page 16

- 11) Please provide the disclosures set forth by SFAS 69 to extent applicable. For any disclosures that you do not believe are applicable, explain to us the reasons why you believe they do not apply to you.

Consolidated Balance Sheets, page 17

- 12) We note that you have recorded at December 31, 2006, accounts receivable for \$685,975. Please expand your footnotes to describe what comprises your accounts receivable. Note that this comment also applies to corresponding amounts appearing in your financial statements for the subsequent interim period.
-

Consolidated Statements of Operations, page 19

- 13) We note that you presented stock-based compensation as a separate caption. Please present the compensation expense on your statements of operations using the function of the expense (for example, general and administrative expense or operating expense). Refer to SAB topic 14:F for additional guidance.
- 14) We note that you included a ceiling test impairment together with depletion, depreciation and accretion expense. Please separately present the impairment expense or re-label the caption to more accurately reflect the nature of the expenses.
- 15) Please present earnings per share on the face of the income statement. See paragraph 36 of SFAS 128 for additional guidance.

Consolidated Statements of Cash Flows, page 20

- 16) We note that you classified changes in non-cash working capital as investing and financing activities. Please tell us what changes comprise these line items and how their classifications as investing and financing activities is more appropriate than classification as either an operating activity or a non-cash investing and financing activity. Tell us whether the amounts presented as changes in non-cash working capital represent gross or net amounts of related receipts and payments and how their presentation is consistent with the guidance of paragraph 11 to 13 of SFAS 95.

Notes to Consolidated Financial Statements, page 21

Note 1. Organization, Basis of Presentation and Going Concern Uncertainty, page 21

- 17) We note disclosure in the first paragraph indicating that your consolidated financial statements are presented in accordance with generally accepted accounting principles in the United States of America, except as outlined in Note 2, which discloses the nature of restatements of previously issued financial statements. Please revise this disclosure to include a clear and unqualified statement as to whether your consolidated financial statements as presented are prepared in accordance with U.S. GAAP.
- 18) We note that you changed your policy for accounting for oil and gas properties from the successful efforts method to the full cost method. Please tell us whether you obtained and filed a preferability letter in connection with this change. See Exhibit 18 under term 601 of Regulation S-B and SAB Topic 12:C.1.

Note 6. Capital Assets, page 27

Unproved Properties, page 28

- 19) We note that included in oil and gas properties are costs of \$1,430,987 related to unproven properties, which exceeds the net book value of oil and gas properties of \$1,270,253 as of December 31, 2006. Please reconcile this difference, and revise the notes to your consolidated financial statements as appropriate. State separately on the face of the balance sheet the aggregate of capitalized costs of unproved properties and major development projects that are excluded from the capitalized costs being amortized.
-

- 20) Please revise to provide the disclosures required by Rule 4-10(c)(7)(ii) of Regulation S-X, including:
- A description of the current status of the significant unproven properties, including the anticipated timing of the inclusion of the associated costs in the amortization computation; and
 - A table showing by categories the costs making up the unproven oil and gas properties account balance.
- 21) We note that you recorded an impairment under the ceiling test during 2006. Please clarify for us whether the impairment pertained to proved or unproved properties. Please expand your footnotes to describe in reasonable detail the circumstances that led to the impairment.
- 22) Provide us a reasonably detailed discussion of the drilling activities you have conducted during the two most recent fiscal years and through the date of your response. As part of your response, describe the timing, type, location, results and current status of each well

Note 7. Convertible Debt, page 28

- 23) We note that you issued convertible debt in 2005 as compensation for services received. Please explain to us how you considered the guidance in EITF 01-01 in accounting for the issuance of convertible debt pursuant to the stock for services compensation plan.

Note 9. Share Capital, page 29

- 24) We note that you issued 7,500,000 common shares to a non-employee and determined the value based on the invoices rendered for the services provided. Paragraph 7 of SFAS 123(R) requires that a company use the fair value of goods or services received if it is more reliably measurable than the fair value of the equity instruments issued. Please tell us why you believe the fair value of the services received was more reliable than the fair value of the common shares issued. We generally believe the fair value of common stock issued is a more reliable measure. Refer to paragraph A7 of SFAS 123(R) for additional guidance.
- 25) Please clarify in the last paragraph on page 30 the percentage of your issued and outstanding common shares that may be issued under your stock option plan.

Note 10. Stock-Based Compensation, page 31

- 26) Please explain to us how you addressed the disclosure requirements set forth by paragraphs A240 of SFAS 123(R).
-

Note 12. Loss Per Share, page 32

- 27) Please revise your computation of basic and diluted loss per share to adjust retroactively for all periods presented to reflect your stock splits. In addition, disclosure that that the per share computations reflect such changes in the number of shares. Refer to paragraph 54 of SFAS 128 for additional guidance.

Note 14. Related Party Transactions, page 33

- 28) We note that your officers and directors purchased 10.2 million shares of common stock on December 22, 2005, for \$0.02 per share. We further note that 1 million common shares were purchased on December 30, 2005, for \$0.50 per share. Please address the following related to these transactions:
- Explain to us the reasons for the difference in the purchase price per share between the December 22, 2005 and the December 30, 2005 subscriptions;
 - Tell us how you considered the guidance in paragraph 7 of SFAS 123(R) in which a share-based payment transaction with employees shall be measured based on the fair value the equity instruments issued; and,
 - Tell us how you determined the fair value of the common shares issued to your officers and directors as part of the December 22, 2005 purchase.
- 29) We note that you issued 2 million common shares in consideration for corporate development services rendered by a related party and that you valued the shares at a market price of \$0.05 per share. We further note on page 11 that your lowest stock price during 2006 was \$0.375 per share. Please tell us how you determined the fair value of the shares issued, and describe the accounting principles that you applied in recording the expense at a value other than the observable market price.

Item 8A. Controls and Procedures, page 35

- 30) We note your disclosure in your annual report and your quarterly reports for the quarters ended March 31, 2007, June 30, 2007 and September 30, 2007 regarding your conclusion that your disclosure controls and procedure were effective as of the date of each such filing.

Please revise your annual report and each quarterly report to disclose the conclusions of your principal executive and provincial financial officers, or persons performing similar functions, regarding the effectiveness of your disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by each such report, based on the evaluation of the controls and procedures required by Rule 13a-15(b). See Item 307 of Regulation S-B. For example, the conclusions of your principal executive and principal financial officer regarding the effectiveness of your internal controls and procedures should be as of December 31, 2006.

- 31) Please revise your annual report and your quarterly reports for the quarters ended March 31, 2007, June 30, 2007, and September 30, 2007 to provide the information required by Item 308(c) of Regulation S-B.

Form 10-Q For the Fiscal Quarter Ended September 30, 2007

Unaudited Consolidated Statements of Cash Flows, page 5

- 32) Please disclose information about your non-cash investing and financing activities. The disclosures may be either narrative or summarized in a schedule, and they should clearly relate the cash and non-cash aspects of transactions involving similar items. Refer to paragraph 32 of SFAS 95 for additional guidance.

Note 8. Share Capital, page 11

- 33) We note in footnote (m) on page 13 that you purchased certain undeveloped oil and gas properties in Canada and the United States. Please clarify whether the properties were proved or unproved based in the definitions found in Rule 4-10(a) of Regulation S-X.

Management's Discussions and Analysis or Plan of Operation, page 19

Southeast Alberta – Manyberries, page 21

- 34) We note that you will release nine sections of undeveloped properties back to Crown and abandon wells in the fourth quarter of 2007. Please describe for us how you considered this abandonment in applying your full cost ceiling test and evaluating unproved properties as of September 30, 2007. To the extent that an impairment is not necessary during the nine months ended September 30, 2007, provide indicative value as to the impact that the abandonment of the wells will have on your financial statements.

Website

- 35) If you retain links to the reports by SISM, you should make clear that you are paying \$42,000 to SISM and that therefore it is not providing "independent coverage" notwithstanding the assertions in the reports to that effect.

Closing Comments

As appropriate, please amend your filings in response to these comments. You may wish to provide us with marked copies of the amendments to expedite our review. Please furnish a cover letter with your amendments that keys your responses to our comments and provides any requested information. Detailed cover letters greatly facilitate our review. Please understand that we may have additional comments after reviewing your amendments and responses to our comments.

We urge all persons who are responsible for the accuracy and adequacy of the disclosure in the filing to be certain that the filing includes all information required under the Securities Act of 1933 and that they have provided all information investors require for an informed investment decision. Since the company and its management are in possession of all facts relating to a company's disclosure, they are responsible for the accuracy and adequacy of the disclosures they have made.

Notwithstanding our comments, in the event the company requests acceleration of the effective date of the pending registration statement, it should furnish a letter, at the time of such request, acknowledging that:

- should the Commission or the staff, acting pursuant to delegated authority, declare the filing effective, it does not foreclose the Commission from taking any action with respect to the filing;
- the action of the Commission or the staff, acting pursuant to delegated authority, in declaring the filing effective, does not relieve the company from its full responsibility for the adequacy and accuracy of the disclosure in the filing; and
- the company may not assert staff comments and the declaration of effectiveness as a defense in any proceeding initiated by the Commission or any person under the federal securities laws of the United States.

In addition, please be advised that the Division of Enforcement has access to all information you provide to the staff of the Division of Corporation Finance in connection with our review of your filing or in response to our comments on your filing.

We will consider a written request for acceleration of the effective date of the registration statement as confirmation of the fact that those requesting acceleration are aware of their respective responsibilities under the Securities Act of 1933 and the Securities Exchange Act of 1934 as they relate to the proposed public offering of the securities specified in the above registration statement. We will act on the request and, pursuant to delegated authority, grant acceleration of the effective date.

We direct your attention to Rules 460 and 461 regarding requesting acceleration of a registration statement. Please allow adequate time after the filing of any amendment for further review before submitting a request for acceleration. Please provide this request at least two business days in advance of the requested effective date.

You may contact Ryan Milne at (202) 551-3680 or Brad Skinner, Senior Assistant Chief Accountant, at (202) 551-3489 if you have any questions regarding comments on the financial statements and related matters. Please contact Laura Nicholson at (202) 551-3584 or, in her absence, Timothy Levenberg, Special Counsel, at (202) 551-3707 with other questions.

Sincerely,

H. Roger Schwall
Assistant Director

Cc: B. Skinner
R. Milne
T. Levenberg
L. Nicholson

via facsimile
Andrew Hudders, Esq.
(212) 754-0330

Kodiak Energy, Inc.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-130561) and on Form SB-2 (No. 333-147325) of Kodiak Energy, Inc. of our report dated February 27, 2008, with respect to our audit of the consolidated financial statements of Kodiak Energy, Inc. which is included in the annual report on Form 10-K for the year ended December 31, 2007.

/s/ Meyers Norris Penny LLP

Calgary, Canada

March 14, 2008

Kodiak Energy, Inc.

EXHIBIT 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, William S. Tighe, President and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Kodiak Energy, Inc. (the "registrant");
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 17, 2008

/s/ William S. Tighe
William S. Tighe
President and Chief Executive Officer

Kodiak Energy, Inc.

EXHIBIT 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, William E. Brimacombe, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Kodiak Energy, Inc. (the "registrant");
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - e) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - f) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - g) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - h) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - c) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - d) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 17, 2008

/s/ William E. Brimacombe
William E. Brimacombe
Chief Financial Officer

Kodiak Energy, Inc.

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual Report of Kodiak Energy, Inc. on Form 10-K for the period ended December 31, 2007 as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: March 17, 2008

/s/ William S. Tighe
William S. Tighe
Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Kodiak Energy, Inc.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual Report of Kodiak Energy, Inc. on Form 10-K for the period ended December 31, 2007 as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: March 17, 2008

/s/ William E. Brimacombe
William E. Brimacombe
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
