MANAGEMENT DISCUSSION of NEW MEXICO PROPERTIES
and
GENERAL EXPLORATION RESULTS to SEPTEMBER 2008

INTRODUCTION

Kodiak Energy, Inc. ("Kodiak" or the "Corporation") acquired a 100% working interest in 55,000 net acres in the Sofia and Spear Draw properties in NE New Mexico as a portion of the Thunder River Energy Inc. acquisition in late 2007.

The appeal of the prospect was based on several previously drilled wells, together with a 1980s gravity survey, several independent geological assessments and the overall size of the initial land position. The previously drilled wells indicated high concentrations of CO_2 in several formations and the presence of hydrocarbons at deeper depths.

Based on this initial position, Kodiak has moved the project forward on several parallel paths:

1. **Acquired additional leases and mineral rights** on the target areas to add sufficient mass and momentum to the project to support a long term development.
2. **Delineation drilling** to evaluate drilling programs for procedures and economic evaluations, and for CO_2 quality testing.
3. **Conducted and evaluated seismic and high resolution gravity surveys** to define the structures and map the reservoirs over the initial Sofia land position.
4. **Conducted preliminary engineering and feasibility study** to identify potential development and production scenarios.
5. **Initiated discussions** with buyers of CO_2, oil producers, pipeline companies and marketers to obtain general definition of the demand for CO_2.

LAND ACQUISITION

After conducting due diligence on the properties in addition to the aforementioned acquisition, Kodiak assessed the adjacent lands via technical data available in the public domain.

Subsequently, Kodiak acquired a substantial amount of proprietary high resolution gravity survey data, not previously available to the public, and correlated trade seismic in the area to that information. Based on in-depth analysis of such data, certain target areas of interest were identified.

Kodiak posted multiple parcels of land with the State of New Mexico in late 2007 and acquired additional mineral rights in the bidding process. However, it became evident that large tracts of lands held by local freehold owners were of more imminent interest to Kodiak. Efforts to lease such lands required a substantial investment of time and money relative to diligence efforts required in advance of acquisition. Bonus considerations were paid and royalty rates were negotiated by Kodiak that coincided with previously held leases in the area. An increase in Kodiak's land position was completed in June 2008, for a total gross acreage position of 79,000 acres, of which Kodiak has 100% ownership.

The additional land acquired by Kodiak is in very close proximity to the Sheep Mountain Pipeline. This pipeline is a key component in the development strategy of this prospect. The average term of the mineral leases is 10 years.

DRILLING AND SEISMIC FIELD ACTIVITIES Q1 TO Q3 2008

Three wells were drilled and cased in March 2008 to evaluate the New Mexico Sofia prospect. A 35 mile seismic program was completed in April 2008 and the data was processed. The data was of excellent quality and is under review to support future drilling and development plans.

These three wells were drilled with air to reduce drilling-caused formation damage and subsequently cased to the base of the Yeso formation. Based on gas detector results, drill cutting samples and open hole logs, all of the wells exhibited three potential shallow porous sandstone formations capable of CO_2 production with up to 200 feet (60 meters) of identified CO_2 net pay thickness.

The Santa Rosa, Yeso, and Glorieta formations were perforated and flow tested to determine deliverability and pressure. Multiple gas samples were analyzed at specialized, independent laboratories from two separate extended flow tests. The analysis identified CO_2

concentration quality from 98.4% to 99.5%. Trace amounts of helium was also detected, although helium production is more normally associated with production from deeper zones.

Two of the Kodiak wells were stimulated with a nitrified acid squeeze and were able to sustain an extended flow rate of approximately 375 mcf/d. The shallow CO_2 bearing sands were mapped using offset well control and the newly acquired seismic data. From this process, Kodiak determined that there is a high likelihood of encountering the target formations and CO_2 throughout the leased project area.

The 35 mile, 2D high resolution seismic program was completed on schedule and on budget. After reviewing the seismic data, Kodiak was able to effectively map out a probable long term development area that could result in CO_2 production from the previously identified formations.

The seismic is further being evaluated to identify possible conventional oil and gas prospects on the newly leased project area.

THE PROSPECTS

Sofia has three prospective target reservoirs identified by the previously drilled wells in addition to the wells drilled in Q1 2008.

Part 1 – "Santa Rosa"

The Santa Rosa formation is located at a depth of approximately 1,200 feet (365 meters) and is a series of sandstones, siltstones and shales. It has an average thickness of approximately 250 feet (76 meters) and demonstrates a consistent reading of CO_2 during the drilling and completion operations.

Part 2 – "Glorieta"

The Glorieta formation is located at a depth of approximately 1,700 feet (518 meters) and is a thick, clean sandstone approximately 125 feet (38 meters) thick. The Glorieta formations in each of the three Kodiak Sofia test wells consistently had the strongest CO_2 flow tests during the completion operations.

Part 3 – "Yeso"

The Yeso formation lies conformably below the Glorieta at a depth of approximately 1,825 feet (556 meters) and consists of a series of sandstones and shales. It is typically split

into the “upper”, “middle” and “lower” Yeso sands separated by shale stringers. The “upper” and “middle” Yeso formation had positive CO_2 test results during the completion operations.

Part 4 – Conventional Oil and Natural Gas Prospects

There is considerable publicly available well information that supports continued conventional oil and natural gas exploration. The seismic data that Kodiak collected in 2008 has shown initial indications of deeper structural anomalies. This information is being correlated to other existing geological information to evaluate these prospects.

The Roxanna State #1 well drilled in 1986 on the Kodiak lands had multiple indications of potential oil reservoirs from 2,800 feet to 3,500 feet (853 meters to 1,066 meters). Well records indicate that several wells drilled to the south and east of the Kodiak Sofia prospect had significant tests for oil and natural gas. Kodiak is studying these conventional oil and natural gas prospects and, after sufficient technical analysis is completed, will initiate an appropriate exploration program.

Part 5 – Spear Draw and Other Areas

The land at Spear Draw was originally purchased based on a low resolution gravity survey anomaly. As Kodiak executed the Sofia exploration program, additional high resolution gravity data was purchased over the Spear Draw prospect and surrounding area. The high resolution gravity data confirmed the presence of a significant and apparent structural anomaly located on the leased Spear Draw lands.

Kodiak has prepared a draft exploration program and budget for the Spear Draw prospect but will not perform any field operations until the Sofia project is further developed. Upon additional review of the gravity survey, Kodiak has also identified numerous other prospects adjacent to the Sofia and Spear Draw prospects and will continue to acquire mineral leases in these prospect areas.

GO FORWARD PLANS

Kodiak has conducted an initial investigation of the infrastructure costs affecting both the capital and operating costs for the New Mexico Project. In addition, various constraints of the pipeline systems were specifically taken into consideration. After this initial investigation, several primary key issues became apparent:

1. Pipeline access and operating conditions (private ownership made information limited);

2. Projected operating costs; and
3. The large scale of the required capital development to make commercial operations effective and commercial.

Kodiak has determined that an "extensive feasibility study" is required **before** a full project can be defined, the design engineering can be commissioned, and financing plans can developed.

Initial Feasibility Study

This study was commissioned, however, had limited results and was delayed due to changes in engineering firms and personnel. Even though some key project parameters were established, additional information is still needed and, therefore, the current feasibility study has been re-commissioned.

Current Feasibility Study

This study is currently underway. There are several key components to the feasibility study that will use the global project parameters established from the previous work. This is being moved forward on a best efforts basis.

This study will be incorporated into a full "Plan of Development" that will be used as the front end engineering and financing document.

Further Definition of Capital Costs is Required

1. **Identify major infrastructure and access costs** (power, roads and sales pipelines)

   a) Pipeline

   Kodiak has worked with several pipeline owners to establish some of the criteria to access this key infrastructure. The operating conditions of the pipeline have been defined and, as a result, a substantial amount of compression will be required. As the project moves forward, actual access and transportation contracts will be required to establish operating and capital costs. There is capacity in the existing system and the general terms discussed with the pipeline owners to date are favorable, as the demand for CO_2 is high in the Permian Basin area of south west Texas.

b) Power

There is a 125KVA power line in the area and initial discussions with the utility company have been initiated. This will be the major expense in operating costs. Other sensitivities are being explored to reduce this operating expenditure requirement.

c) Roads and Other Infrastructure

There is a well developed road system in the area with year around access to the properties and services.

d) Cost of Other Services

Although this area of north east New Mexico is not a well developed oil and gas area, access to services, such as drilling, construction and operations are available within a reasonable distance.

2. Basic Design of Facilities

Utilities, gathering systems, gas processing, compression and sales systems – the capital costs of these systems costs must be well known for various alternatives to be fully assessed and appropriate decisions made in order to proceed with the go forward design. In addition, the operating costs of each alternative must be known to fully evaluate the project. Various sensitivities are being run to short list the two best alternatives.

a) Initial scoping is underway to define compression requirements – both capital and operating costs. This will be the largest single item in the project's overall capital and operating costs.

b) Due to the high quality of CO_2 found, little gas processing is required to meet pipeline specifications. The capital and operating costs for processing is expected to be nominal.

c) Helium has been seen as a trace component. However, long term tests are required to define the economics of helium recovery.

3. Drilling and Development Costs

a) The 3 well drilling program in Q1 2008 have defined drilling techniques and costs to a reliable estimate, at this time.

b) Several scenarios are being evaluated to best optimize development costs over the life cycle of the facility.

4. Risk in Capital Costs

This will be directly affected by front end engineering prior to major commitments and Kodiak is working on a +/- 40% capital cost estimates. Prior to major capital commitments, the design will be engineered to a reasonable level (balancing front end costs versus schedule and back end costs) and fixed price construction bids used where ever possible. The target is +/- 10% to 15% prior to construction commitment.

Further Definition of Operating Costs/Revenue is Required to Define a Project of this Scale

1. Revenue

a) Typical contract terms and conditions of the marketing systems must be known in order to estimate project revenues. Even though some work has been done with marketing companies and major users of the CO_2, further work is needed once the overall projected deliverability schemes are developed and firm terms and conditions can be negotiated for the project.

b) Definition is required of the minimum and maximum project availability to sales of the CO_2 and establishing the overall market for CO_2 in the Permian Basin.

c) The operating costs and revenue stream is yet to be defined in a feasibility study along with long term contractual terms prior to any major commitments.

2. Utilities and Infrastructure Costs

a) Specifically, the power is to be defined in a feasibility study with long range contractual terms prior to major commitments.

b) Alternatives to electrical power must be reviewed and, if economic solutions are identified, then put alternative plans in place.

3. Manpower Costs

Training, safety and overhead costs that are specific to the area and New Mexico in general, must be included.

4. Royalties to Government and Freeholders

Identify and incorporate the fixed in leasing costs for the next 10 years.

Financing Costs and Opportunities (listed by priority)

1. Participation or Joint Venture Opportunities

15% to 30% of the capital costs of the project is planned to be offset with industry partners.

a) Several pipeline and marketing companies have expressed interest to participate at the working interest level.

b) Users of the CO_2 have expressed interest on both a participation in the project as well as a joint participation at the revenue level in their enhanced recovery projects with the Kodiak CO_2.

2. Borrowing Opportunities and Costs

The limits on debt instruments and payback terms are yet to be defined. The largest component of the project is expected to be debt based on commercial terms.

3. Capital Venture Opportunities and Costs

After joint venture participation and debt instruments, the balance is expected to be funded by raising capital in the market and is targeted to be about 15% to 25% of the total project. Potential divestures of other Kodiak properties may be used to also fund this portion, depending upon timing.

4. Risk Costs

Cost overruns, financing short falls, etc., requires, in part, a very thorough engineering document, project scoping, and fixed price contracts, to minimize the risk.

5. Other Business Models

Potential power generation, helium recovery, and oil and gas developments, along with the timing of each component may be used to support development of the project.

a) **Natural gas** on the properties would have twofold benefit as:

i. Potential revenue stream through power generation into the grid.

ii. Primary energy source for the compression, thus substantially lowering operating costs. Consequently, a drilling program to identify natural gas prospects is being considered.

b) **Oil** production could be easily brought to market.

c) **Helium** also has the potential for a secondary revenue stream. However, the percentage found in the raw gas must be sufficient to justify the added capital and operating costs. This potential has yet to be defined.

d) **Purchase existing production** to use the Kodiak CO_2 for enhanced recovery. Kodiak has reviewed several properties and feels that this model, which has been very successful for other companies, is worth pursuing in depth. This will likely be financed with divestures of other Kodiak properties.

Further Definition of Reserves

1. Long term testing of the CO_2 deliverability of formations is required to support Kodiak's internal projections of 15 to 18 years per well.

2. This long term testing of the CO_2 deliverability will support the overall project design and cost considerations.

3. Once the CO_2 process models are defined, then the economics of the helium potential will be evaluated for economic returns on capital and operations investments.

4. The alternative energy sources of oil and natural gas potentials, along with revenue sources, will substantially enhance the project economics and affect the timelines for development of different stages. This oil and natural gas potential will be given a high focus in parallel with the other work.

SUMMARY

Kodiak has a land position of approximately 78,000 gross acres with key infrastructure located immediately adjacent or within the Kodiak properties. The producing formations contain a very high quality of 98.4% to 99.5% CO_2. The downhole pressures at Sofia were lower than expected, and thus the projected reserves at Sofia are less than anticipated. However, based on the additional seismic completed in April 2008 along with subsequent analysis, the CO_2 is expected to be widely distributed over the held properties. The Corporation has several other opportunities to increase its land position. Since the New Mexico project is a major scale, long term development, a 3 to 5 year development plan is currently being evaluated.

With solid and methodical project management, along with a well developed process design, Kodiak believes a long term commercial scale project is achievable. Kodiak is targeting the project with a 10% to 15% per annum return on the investment capital per year based on an expected 25 MMscf/d to 40 MMscf/d of CO_2 production facility with a 20 to 25 year lifecycle. Additional business models will enhance the return, such as acquiring existing low productivity oil production to inject the CO_2, and natural gas production for power generation on the project.

There are several major items to be completed prior to commencement of construction, including access and transportation agreements for the pipeline and power systems, long term sales contracts, and detailed design work. This work is underway in parallel paths as is the evaluation of other potentials, which will add value to the overall project by reducing capital or operating costs, or both.

About Kodiak

Kodiak Energy, Inc. is a Calgary, Alberta; Canada based publicly traded oil and gas development company focused on creating a portfolio of North American assets that offer production opportunities and asset growth through exploration. Kodiak has lease holdings in Montana, southeastern Alberta, northeastern Alberta and high impact prospects located in the central Mackenzie River Valley of the Northwest Territories, Canada and in northeastern New Mexico.

This management discussion contains forward-looking statements. The words or phrases "would be," "will" "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," or similar expressions are intended to identify "forward-looking statements." Actual results could differ materially from those projected in the Corporation's proposed oil and gas related business. The Corporation's business is subject to various risks, which are discussed in the Corporation's filings with the US Securities and Exchange Commission and with Canadian securities commissions. The Corporation's filings may be accessed at www.sec.gov or at www.sedar.com.

The information in the Engineering Report referred to herein contains the terms "prospective resources". Kodiak advises investors that although these terms are recognized and required by Canadian securities regulations (under National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities), the US Securities and Exchange Commission does not recognize these terms. Investors are cautioned not to assume that any part or all of the resources in this category will ever be converted into reserves. In addition, "prospective resources" have a great amount of uncertainty as to their existence, and economic and legal feasibility. It cannot be assumed that any part of a prospective resource will ever be upgraded to a higher category. Under Canadian rules, estimates of prospective resources may not form the basis of feasibility or pre-feasibility studies, or economic studies except for a "preliminary assessment" as defined under National Instrument 51-101. Under US rules, investors are cautioned not to assume that part or all of a prospective resource exists, or is economically or legally recoverable.

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Further information relating to Kodiak may be found on www.sedar.com and www.sec.gov under the Corporation’s profile, as well as on Kodiak’s website at www.kodiakpetroleum.com.

The TSX Venture Exchange has not reviewed this management discussion and does not accept responsibility for the adequacy or accuracy of this document.