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## Southridge Services Electronic EDGAR Proof

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<b>Job Number:</b>	-
<b>Filer:</b>	<b>Kodiak Energy, Inc.</b>
<b>Form Type:</b>	<b>10-Q/A</b>
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### Documents

10-Q/A	kodiak10qsba093007.htm Kodiak Energy, Inc. Form 10-Q/A September 30, 2007
EX-31.1	kodiak10qsba093007ex31-1.htm Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
EX-31.2	kodiak10qsba093007ex31-2.htm Certification of Chief Financial Officer to Section 302 of the Sarbanes-Oxley Act of 2002
EX-32.1	kodiak10qsba093007ex32.htm Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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### Module and Segment References

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

FORM 10-Q/A

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2007

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File number 0 - 24012

**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 T2P 3P8  
(Address of principal executive offices - Zip code)

(403) 262-8044  
(Registrant's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act during the past 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 whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Check whether the registrant filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 106,692,498 Common Shares

Transitional Small Business Disclosure Format (Check one): Yes  No

EXPLANATORY NOTES

This amendment on Form 10-QSB/A to our Quarterly Report on Form 10-QSB for the fiscal quarter ended September 30, 2007, originally filed with the United States Securities and Exchange Commission (SEC) on November 14, 2007, is being filed for the purpose of restating our unaudited consolidated balance sheet as at September 30, 2007 and unaudited consolidated statements of stockholders' equity and comprehensive loss and related disclosures for the fiscal quarter ended September 30, 2007 and the cumulative period from inception April 7, 2004 to September 30, 2007. The restatements are to correct an error in accounting and an error in applying accounting principles for shares issued during the quarter. The changes to correct the errors are reflected in the following sections noted below:

- September 30, 2007 Consolidated Financial Statements and Notes
- Management Discussion and Analysis
- Controls and Procedures

KODIAK ENERGY INC.  
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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## KODIAK ENERGY, INC.

## Consolidated Balance Sheets

(Exploration Stage Company Going Concern Uncertainty – Note 1)

	September 30 2007 (Unaudited) (Restated – Note 2)	December 31 2006 (Audited)
Assets		
Current Assets:		
Cash and Short Term Deposits	\$ 7,413,387	\$ 448,346
Accounts Receivable (Note 4)	1,310,049	685,975
Prepaid Expenses and Deposits (Note 5)	73,993	196,838
	<u>8,797,429</u>	<u>1,331,159</u>
Other Assets (Note 6)	116,820	49,860
Capital Assets (Note 7):		
Unproved Oil & Gas Properties Excluded From Amortization – Based On Full Cost Accounting	25,996,312	1,270,253
Furniture and Fixtures	79,024	55,803
	<u>26,075,336</u>	<u>1,326,056</u>
	<u>\$ 34,989,585</u>	<u>\$ 2,707,075</u>
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts Payable	1,363,251	585,253
Accrued Liabilities	409,500	273,850
Notes Payable (Note 8)	732,500	-
Premium on Flow-through Common Shares Issued (Note 10)	933,335	-
	<u>3,438,586</u>	<u>859,103</u>
Asset Retirement Obligations (Note 9)	108,811	90,911
Commitments and Contingencies (Note 14)	3,547,397	950,014
Shareholders' Equity		
Share Capital (Note 10):		
Authorized:		
300,000,000 (2006 - 100,000,000) Common Shares Par Value .001 Each Issued & Outstanding 104,907,498 (2006 – 89,946,468) Common Shares	104,907	89,946
Shares Issuable (Note 10)	-	538,328
Additional Paid in Capital	37,400,261	5,212,777
Other Comprehensive Loss	(212,165)	(20,214)
Deficit Accumulated During The Exploration Stage	(5,850,815)	(4,063,776)
	<u>31,442,188</u>	<u>1,757,061</u>
	<u>\$ 34,989,585</u>	<u>\$ 2,707,075</u>

(See accompanying notes to the consolidated financial statements)

**KODIAK ENERGY, INC.**  
**Unaudited Consolidated Statements of Shareholders' Equity**  
**For the Nine Months Ended September 30, 2007**  
**(Exploration Stage Company Going Concern Uncertainty – Note 1)**

	Number of Common Shares	Amount	Additional Paid in Capital (Restated – Note 2)	Deficit Accumulated During the Development Stage	Accumulated Other Comprehensive Loss	Shares Issuable	Total Shareholder's Equity (Restated – Note 2)
Balance at Dec. 31, 2006	89,946,468	\$ 89,946	\$ 5,212,777	\$ (4,063,776)	\$ (20,214)	\$ 538,328	1,757,061
Net loss	-	-	-	(1,787,039)	-	-	(1,787,039)
Foreign currency translation	-	-	-	-	(191,951)	-	(191,951)
Total comprehensive loss	-	-	-	(1,787,039)	(191,951)	-	(1,978,990)
Issuance of common stock	14,961,030	14,961	31,718,162	-	-	(538,328)	31,194,795
Stock-based compensation	-	-	469,322	-	-	-	469,322
Balance at Sept. 30, 2007	104,907,498	\$ 104,907	\$ 37,400,261	\$ (5,850,815)	\$ (212,165)	-	\$ 31,442,188

(See accompanying notes to the consolidated financial statements)

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

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006	Cumulative Since Inception Apr. 7, 2004 to September 30, 2007
<b>INCOME DURING THE EVALUATION PERIOD</b>	\$ (202)	\$ 10,331	\$ 225	\$ 10,331	\$ 27,359
<b>EXPENSES</b>					
Operating	549	5,010	12,149	5,010	25,721
General and Administrative	603,697	266,867	1,178,603	700,910	2,510,779
Stock-based Investor Relations Expense	-	-	-	337,500	337,500
Stock-based Compensation	190,239	-	469,322	-	538,491
Depletion, Depreciation and Accretion including Ceiling Test Impairment					
Write-downs	12,900	446,337	35,043	451,485	1,543,299
Interest Expense	75,238	-	94,056	-	902,867
	882,623	718,224	1,789,173	1,494,905	5,858,657
Loss Before Other Expenses	(882,825)	(707,893)	(1,788,948)	(1,484,574)	(5,831,298)
<b>Other Expenses (Income)</b>					
Loss from valuation adjustment	-	-	-	-	25,000
Interest Income	(1,400)	-	(1,909)	-	(5,483)
	(1,400)	-	(1,909)	-	19,517
Loss before income taxes	(881,425)	(707,893)	(1,787,039)	(1,484,574)	(5,850,815)
Recovery of Deferred Income Taxes	(55,480)	-	-	-	-
<b>NET LOSS</b>	\$ (825,945)	\$ (707,893)	\$ (1,787,039)	\$ (1,484,574)	\$ (5,850,815)
Basic and diluted Loss per share (Note 13)	\$ (.01)	\$ (.01)	\$ (.02)	\$ (.02)	

(See accompanying notes to the consolidated financial statements)

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

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006	Cumulative Since Inception April 7, 2004 to September 30, 2007
<b>OPERATING ACTIVITIES</b>					
NET LOSS	\$ (825,945)	\$ (707,893)	\$ (1,787,039)	\$ (1,484,574)	\$ (5,850,815)
Adjustments to reconcile net loss to net cash used in operating activities:					
Depletion, Depreciation and Accretion	12,900	446,337	35,043	451,485	1,543,299
Interest Expense	(18,818)	-	-	-	808,811
Stock-Based Investor Relations Expense	-	-	-	337,500	337,500
Stock-Based Compensation	190,239	-	469,322	-	538,491
Provision for Deferred Income Taxes	(55,480)	-	-	-	-
Contributions to Capital	-	-	-	-	900
Changes in Non-Cash Working Capital (Note 18)	(15,335)	(293,614)	(94,523)	(289,314)	36,255
Net Cash Used In Operating Activities	(712,439)	(555,170)	(1,377,197)	(984,903)	(2,585,559)
<b>Investment Activities:</b>					
Additions To Capital Assets	(2,176,090)	(1,011,208)	(7,071,453)	(1,852,370)	(9,922,900)
Additions To Other Assets	(61,740)	(305)	(66,960)	(405)	(116,820)
Net Cash Used In Investment Activities	(2,237,830)	(1,011,513)	(7,138,413)	(1,852,775)	(10,039,720)
<b>Financing Activities:</b>					
Shares Issued and Issuable	8,926,576	90,000	12,372,602	3,133,941	16,950,832
Proceeds of Notes Payable	300,000	-	3,300,000	-	3,300,000
Net Cash Provided By Financing Activities	9,226,576	90,000	15,672,602	3,133,941	20,250,832
Foreign Currency Translation	(126,358)	(3,825)	(191,951)	(733)	(212,165)
Net Cash Increase (Decrease)	6,149,949	(1,480,507)	6,965,041	291,530	7,413,387
Cash beginning of period	1,263,438	1,962,688	448,346	190,651	-
Cash end of period	\$ 7,413,387	\$ 482,181	\$ 7,413,387	\$ 482,181	\$ 7,413,387

(See accompanying notes to the consolidated financial statements)

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 September 30, 2007 and December 31, 2006 and for the three and nine months ended September 30, 2007 and 2006 and for the cumulative period from April 7, 2004 (inception) until September 30, 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 affected 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.

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 an exploration 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 9 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 March, 2009, we determined that it was necessary to restate our unaudited financial statements as at September 30, 2007. The purpose of the restatements is to correct an error in measurement and an error in the application of US GAAP in the course of recording the following September, 2007 transactions:

Issue of common shares of the Company in consideration for the acquisition of properties.

On September 28, 2007, the Company issued to Thunder River Energy, Inc. ("Thunder") 7,000,000 common shares of the Company as partial consideration for the acquisition of certain unproved properties. The shares issued were recorded at a price per share of US\$2.00 or \$14,000,000 which was the negotiated valuation. In the course of a review by the Securities and Exchange Commission ("SEC") of the Company's Form 10-Q for the Fiscal Quarter Ended September 30, 2007 and Form 10-K for the Fiscal Year Ended December 31, 2007, the SEC questioned the measurement date and consequently the \$2.00 per share value at which the transaction was recorded. Following an exchange of correspondence and discussions between the Company and the SEC during 2008 and 2009 regarding this issue, the Company has determined that the acquisition should have been recorded at a value per share of \$2.50 or \$17,500,000, which represents the fair value of exactly comparable common shares issued at the same \$2.50 price per share as a private placement financing for 2,756,000 common shares which closed on September 28, 2007, the same date that the Thunder transaction closed. Management believes that the \$2.50 Kodiak share price to be the most reliable measurement for the fair value of the shares issued and that September 28, 2008 to be the appropriate measurement date because that was the date when the parties' closing conditions were satisfied and Thunder's (the counterparty's) performance was complete. The result of the restatement adjustment would be an increase of \$3,500,000 in the recorded acquisition cost and related issuance of common shares.

Issue of flow-through common shares of the Company at a premium.

On September 28, 2007, the Company issued on a Canadian flow-through share basis 1,866,670 common shares of the Company at US\$3.00 per share or \$5,600,010, which amount represented a premium of \$.50 per share or \$933,335 when compared to other non-flow through shares issued at the same time at \$2.50 per share. At the time of the transactions, the issue of the flow through common shares was recorded as appropriate credits to par value of common shares and additional paid in capital. Following recent discussions with the Company's tax consultant, the Company has determined that the \$933,335 premium on flow-through common shares issued should have, in accordance with US GAAP, been recorded as a liability at the time the shares were issued rather than as additional paid in capital. The premium liability was discharged during the period October, 2007 to August, 2008 and recognized as reduction of deferred tax expense, when the flow-through eligible expenditures were incurred by the Company.

Effects of the restatement by line item follow:  
 Unaudited Consolidated Balance Sheets

	September 30, 2007	Impact of Change	September 30, 2007 Restated
	As Previously Reported		
Cash and Short Term Deposits	\$ 7,413,387	-	\$ 7,413,387
Accounts Receivable	1,310,049	-	1,310,049
Prepaid Expenses and Deposits	73,993	-	73,993
Total current assets	8,797,429	-	8,797,429
Other Assets	116,820	-	116,820
Unproved Oil and Gas Properties	22,496,312	3,500,000	25,996,312
Furniture and Fixtures	79,024	-	79,024
Total Property, Plant and Equipment	22,575,336	3,500,000	26,075,336
Total Assets	\$ 31,489,585	3,500,000	34,989,585
Accounts Payable	\$ 1,363,251	-	1,363,251
Accrued Liabilities	409,500	-	409,500
Notes Payable	732,500	-	732,500

Premium on Flow-through Shares Issued	-	933,335	933,335
Total current liabilities	2,505,251	933,335	3,438,586
Asset Retirement Obligations	108,811	-	108,811
Deferred Income Taxes	52,012	(52,012)	-
	2,666,074	881,323	3,547,397
Share Capital	104,907	-	104,907
Additional Paid in Capital	34,833,596	2,566,665	37,400,261
Other Comprehensive Loss	(212,165)	-	(212,165)
Deficit Accumulated during the Exploration Stage	(5,902,827)	52,012	(5,850,815)
Total Shareholders' Equity	28,823,511	2,618,677	31,442,188
Total Liabilities and Shareholders' Equity	\$ 31,489,585	3,500,000	34,989,585

There was no impact on the Unaudited Consolidated Statements of Operations or the Unaudited Consolidated Statement of Cash Flows.

### 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. 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.

#### 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 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 in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. 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.

#### Flow-through Shares

The Company finances a portion of its Canadian exploration programs with flow-through common shares issued pursuant to certain provisions of the Income Tax Act (Canada) (the "Act"). Under the Act, where the proceeds are used for eligible expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, the tax credits associated with the renunciation of such expenditures are recorded as an increase to deferred income tax liabilities. Any premium received from subscribers on the sale of such flow-through common shares is recorded initially as a current liability and then discharged and recognized as a reduction of deferred income taxes when the flow-through eligible expenditures relating to the flow-through premium are incurred by the Company.

#### Stock-Based Compensation

The Company records compensation expense in the Consolidated Financial Statements 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 Contributed Surplus. Upon the exercise of the stock options, consideration paid together with the previously recognized contributed surplus 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 assets and liabilities 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 resulting in production.

#### Loss Per Common Share

Basic loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted 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. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	September 30, 2007	December 31, 2006
Non-operating Partner joint venture accounts	\$ 685,254	\$ 294,284
Operator cash call advances	76,388	250,130
Government of Canada Goods and Services Tax Claims	519,780	114,363
Accrued interest receivable	1,109	-
Other	27,518	27,198
	<u>\$ 1,310,049</u>	<u>\$ 685,975</u>

#### 5. PREPAID EXPENSES AND DEPOSITS

An amount of \$186,924 (December 31, 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 reclassified from Prepaid Expenses and Deposits to Accounts Receivable. The refund was received by the Company in October, 2007.

#### 6. OTHER ASSETS

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

	September 30, 2007	December 31, 2006
Alberta Energy and Utility Board Drilling Deposit	\$ 86,300	\$ 23,808
Alberta Energy Royalty Deposit	4,706	4,074
British Columbia Oil and Gas Commission Deposit	25,814	21,978
	<u>\$ 116,820</u>	<u>\$ 49,860</u>

#### 7. CAPITAL ASSETS

	Cost	Accumulated Depreciation and Depletion	Net Book Value September 30, 2007
Unproved Oil and Gas Properties:			
Canada	\$ 19,430,711	\$ 1,476,657	\$ 17,954,054
United States	8,042,258	-	8,042,258
Sub-total	27,472,969	1,476,657	25,996,312
Furniture and Fixtures	121,744	42,720	79,024
Total	<u>\$ 27,594,713</u>	<u>\$ 1,519,377</u>	<u>\$ 26,075,336</u>

	Cost	Accumulated Depreciation And Depletion	Net Book Value December 31, 2006
Unproved Oil and Gas Properties:			
Canada	\$ 2,182,075	\$ 1,476,657	\$ 705,418
United States	564,835	-	564,835
<b>Sub-total</b>	<b>2,746,910</b>	<b>1,476,657</b>	<b>1,270,253</b>
Furniture and Fixtures	69,564	13,761	55,803
<b>Total</b>	<b>\$ 2,816,474</b>	<b>\$ 1,490,418</b>	<b>\$ 1,326,056</b>

During the nine months ended September 30, 2007, the Company capitalized \$84,602 (December 31, 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:

	September 30, 2007	December 31, 2006
Canada		
Land acquisition and retention	\$ 11,248,600	\$ 84,263
Geological and geophysical costs	5,820,900	241,017
Exploratory drilling	617,404	192,430
Tangible Equipment and Facilities	194,806	187,708
Other	72,344	-
	<b>\$ 17,954,054</b>	<b>\$ 705,418</b>
United States		
Land acquisition and retention	\$ 7,416,086	\$ -
Geological and geophysical costs	193,015	132,000
Exploratory drilling	409,246	408,924
Tangible Equipment and Facilities	-	-
Other	23,911	23,911
	<b>\$ 8,042,258</b>	<b>\$ 564,835</b>
	<b>\$ 25,996,312</b>	<b>\$ 1,270,253</b>

Drilling programs are being planned for our North West Territories and British Columbia properties in Canada and 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 \$25 million of our total unproved property costs as at September 30, 2007, will be included in our costs subject to depletion in the future.

#### Ceiling Test

The Company has performed ceiling tests for unproved properties in its Canadian and United States geographical cost centers and has determined that no impairment exists as at September 30, 2007. As at December 31, 2006, it was determined that impairment existed in the Canadian unproved properties cost center and consequently, a ceiling test write-down of \$1,419,946 was recorded and included in depletion, depreciation and accretion expense.

#### Property Acquisition

On September 28, 2007 the Company purchased from Thunder Energy, Inc. ("Thunder") and CIMA Holdings, Inc. ("CIMA"), a subsidiary of Thunder, under the terms of a Purchase and Sale Agreement, 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 million 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 6,000,000 common shares of the Company upon the achievement of certain milestones in connection with the acquired properties. All acquired properties are unproved. For accounting purposes, the 7 million common shares issued to Thunder were recorded at a value of \$17,500,000 or \$2.50 per common share, being the same price per share at which the September 28, 2007 private placement financing of 2,756,000 non-flow-through common shares were issued. September 28, 2007 was considered to be the appropriate measurement date to use for the determining the fair value of the common shares issued as the non-cash consideration for the property acquisition. (See Notes 2 and 10).

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.

#### 8. DEBT

##### Notes Payable

During the second and third quarters of 2007, the Company received \$3,300,000 in advances from a European lender which bear interest at 9½% per annum and are unsecured. As at September 30, 2007, interest of \$94,055 has been accrued. 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 9. On October 1, 2007, the balance was repaid in full in cash with accrued interest.

	2007	2006
Advances during the nine months ended September 30	\$ 3,300,000	\$ Nil
Amount repaid September 28	<u>2,567,500</u>	<u>Nil</u>
Balance September 30	<u>\$ 732,500</u>	<u>\$ Nil</u>

#### 9. 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	<u>4,718</u>
Asset retirement obligations, December 31, 2006	90,911
Obligations incurred	11,796
Accretion	<u>6,104</u>
Asset retirement obligations, September 30, 2007	<u>\$ 108,811</u>

At September 30, 2007, the estimated total undiscounted amount required to settle the asset retirement obligations was \$ 175,346 (December 31, 2006 - \$97,472). 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%.

#### 10. SHARE CAPITAL

Authorized:

September 30, 2007 and December 31, 2006 – 300,000,000 common shares at \$0.001 par value

At the annual general meeting held on July 18, 2006, the shareholders of the Company voted in favor of increasing the authorized common shares to 300,000,000.

The following share capital transactions occurred during the periods:

Issued	Number	Par Value	Additional Paid in Capital
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)	18,407,362	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)	187,500	187	235,254
Stock-based compensation (note 11)	-	-	69,169
Balance December 31, 2006	<u>89,946,928</u>	<u>89,946</u>	<u>5,212,777</u>
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	4,216,808
Private Placement (m)	7,000,000	7,000	17,493,000
Stock-based compensation (Note 11)	-	-	469,322
Balance September 30, 2007	<u>104,907,498</u>	<u>\$ 104,907</u>	<u>\$ 37,400,261</u>

Shares to be Issued

	2007		2006	
	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 (h)	-	-	30,000	38,768
Private Placement, net of costs (i)	-	-	440,000	499,560
<b>Closing Balance</b>	<b>-</b>	<b>\$ -</b>	<b>470,000</b>	<b>\$ 538,328</b>

- (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 18,407,362 shares of common stock issued.
- (e) During 2006, the Company issued 7,500,000 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 (217,050 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 \$38,328, as Shares To Be Issued 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 To Be Issued 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 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. The shares sold at \$3.00 were sold on the basis that the Company would provide the purchaser a Canadian tax flow through advantage. The \$.50 per share premium received from subscribers on the sale of such flow-through common shares amounting to \$933,335 was recorded as a current liability. 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. The Company will seek a listing on the Toronto Venture Stock Exchange for its common shares. If the Company does not have such listing in place by December 28, 2007, then it will pay in cash to the September 28, 2007 private placement investors a penalty amount of 2% per month until such listing is achieved. The penalty provision is not limited as to time or amount.
- (m) 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. For accounting purposes, the 7 million common shares issued to Thunder were recorded at a value of \$17,500,000 or \$2.50 per common share, being the same price per share at which the September 28, 2007 private placement financing of 2,756,000 (l) non-flow-through common shares were issued (Note 2).

At September 30, 2007, the following common shares were reserved for issuance:

	Exercise Price (\$)	Equivalent Shares Outstanding	Weighted Average Years to Expiry	Option Shares Vested
Stock Option Plan	\$ 1.28-\$2.74	2,035,000	4.26	Nil
June 2006 Warrants	\$ 2.70-\$3.50	1,130,000	3.75	-
February 2007 Warrants	\$ 1.50	860,000	1.39	-
May 2007 Warrants	\$ 1.50	2,447,900	1.51	-
September 2007 Warrants	\$ 2.50	220,480	1.49	-
September 2007 Warrants	\$ 3.00	149,334	1.49	-
Thunder Acquisition (Notes 5 and 8)		11,000,000		
Total Shares Reserved		17,842,714		

Pursuant to private placements in 2006 and 2007, the Company had 4,807,714 warrants outstanding as at September 30, 2007 (December 31, 2006 – 1,570,000). Each of the 1,130,000 June 2006 warrants entitles the warrant holder to exchange one warrant for one common share at a price of \$2.70 until June 30, 2008 and \$3.50 from July 1, 2008 to June 30, 2011. Each of the 860,000 February 2007 warrants entitles the warrant holder to exchange one warrant for one common share at a price of \$1.50 until February 20, 2009. Each of the 2,447,900 May 2007 warrants entitles the warrant holder to exchange one warrant for one common share at a price of \$1.50 until May 10, 2009. Of the September, 2007 warrants, 220,480 entitle the holder to exchange one warrant for one common share at a price of \$2.50 until March 28, 2009 and 149,334 entitle the holder to exchange one warrant for one common share at a price of \$3.00 until March 29, 2009.

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. As at September 30, 2007, none of the outstanding options were exercised. 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 the first nine months of 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.

A summary of the status of the stock option plan is as follows:

	Expiry Date	Number of Option Shares	Weighted Average Exercise Price
Balance December 31, 2005		-	-
Options Granted October 23, 2006	Oct 23/11	1,280,000	\$ 1.50
Options Cancelled		(280,000)	\$ 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	230,000	\$ 2.74
Balance September 30, 2007		2,035,000	\$ 1.63

## 11. 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:

	2007	2006
Risk free interest rate	3.94-4.57%	3.74-4.11%
Expected holding period	3 years	3 years
Share price volatility	75%	75%
Estimated annual common share dividend	-	-

The fair value of options granted during the nine months ended September 30, 2007 totaled \$1,056,510 (September 30, 2006 - \$ Nil). The amount of share-based compensation expense recorded during the nine months ended September 30, 2007 is \$ 469,322 (September 30, 2006 - \$ Nil) and has been credited to additional paid in capital. The balance of the fair value of the options to be expensed in future periods is \$1,725,676 (December 31, 2006 - \$1,012,831) over a vesting period of three years.

## 12. INCOME TAXES

At September 30, 2007, the Company's deferred tax asset is attributable to its net operating loss carry forward of approximately \$3,448,000 (December 31, 2006 - \$647,000), which will expire if not utilized in the years 2024, 2025 and 2026. Of this amount, approximately \$400,000 (December 31, 2006 - \$397,000) 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 periods ended September 30, 2007, December 31, 2006 and for the cumulative period April 7, 2004 (Date of Inception) to September 30, 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	Cumulative
Income tax benefit at statutory rate	\$ 624,000	\$ 1,080,000	\$ 2,123,000
Permanent Differences	2,000	(132,000)	(410,000)
State tax benefit, net of federal taxes	33,000	1,000	45,000
Foreign taxes, net of federal benefit	(69,000)	12,000	(55,000)
Change in valuation allowance	(590,000)	(961,000)	(1,704,000)
<b>Income tax benefit at effective rate</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Deferred tax assets (liabilities) at September 30, 2007 and December 31, 2006 are comprised of the following:

	2007	2006
Deferred tax assets		
Deferred costs	\$ -	\$ 443,000
Net operating loss carryover	3,448,000	647,000
Revision to tax account estimates	177,000	-
Other	6,000	24,000
<b>Total deferred tax asset</b>	<b>3,631,000</b>	<b>1,114,000</b>
Deferred Tax liabilities		
Excess tax deductions over book amounts written off	1,927,000	-
Net deferred tax asset before valuation allowance	1,704,000	1,114,000
Less valuation allowance	(1,704,000)	(1,114,000)
<b>Net deferred tax asset</b>	<b>\$ -</b>	<b>\$ -</b>

## 13. LOSS PER SHARE

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

	<b>Three Months Ended September 30, 2007</b>	<b>Three Months Ended September 30, 2006</b>	<b>Nine Months Ended September 30, 2007</b>	<b>Nine Months Ended September 30, 2006</b>
<b>Numerator:</b>				
Numerator for basic and diluted loss per share				
Net Loss	\$ (825,945)	\$ (707,893)	\$ (1,787,039)	\$ (1,484,574)
<b>Denominator:</b>				
Denominator for basic loss per share				
Weighted average shares outstanding	93,663,368	89,759,428	92,380,591	63,327,073
In the money stock options	922,311	-	776,162	-
In the money warrants	1,763,788	-	968,930	-
Contingent Thunder shares	146,739	-	49,451	-
Denominator for diluted loss per share				
Weighted average shares outstanding	96,496,206	89,759,428	94,195,133	63,327,073
<b>Basic and diluted loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>

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

Of the contingent shares related to the Thunder transaction, only 4.5 million shares of the 11 million total contingent shares are assumed to be issued for purposes of the diluted loss per share calculation. The 7.5 million shares relating to the significant discovery and production milestones as set out in Note 5 have been excluded because their inclusion would be anti-dilutive.

#### 14. CONTINGENCIES AND COMMITMENTS

##### Private Placement Commitments

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 as more fully set out in Note 10. Under the terms of the agency agreement with the broker, the Company committed to seek a listing on the Toronto Venture Stock Exchange (TSXV) for its common shares. If the Company does not have such listing in place by December 28, 2007, then it will pay in cash to the September 28, 2007 private placement investors a penalty amount of 2% per month (\$249,708) until such listing is achieved. The penalty provision is not limited as to time or amount. There is no assurance that the listing of the common stock on the TSXV will be obtained prior to the December 28, 2007 date or ever. The Company intends to pursue the listing vigorously.

Of the 4,622,670 total shares sold in the private placement, 1,866,670 were sold at a purchase price of \$3.00 for gross proceeds of \$5,600,010 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. Failure to incur the eligible expenditures or failure to renounce such expenditures to the investors could result in a liability of the Company for any Canadian tax consequences to the investors. As at September 30, 2007, the Company has not incurred any eligible expenditures and therefore has a balance of \$5,600,010 to spend by December 31, 2008.

##### Thunder Acquisition Commitments

On September 28, 2007 the Company purchased from Thunder certain unproved 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.

## 15. 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 cash equivalents, accounts receivable, accounts payable, accrued liabilities and notes payable are carried at values that approximate their fair values due to their relatively short maturity periods.

## 16. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2006, the Company paid \$61,087 to companies, which at that date beneficially owned 8.1% of the Company, for investor relations services. Of this amount \$46,087 is included in Administrative Expenses and \$15,000 is in Prepaid Expenses.

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 nine months ended September 30, 2007, the Company paid \$78,103 (2006 - \$62,192), including \$12,002 owing as at September 30, 2007 (December 31, 2006 - \$ nil) to Sicamous Oil & Gas Consultants Ltd., a company owned by the President & Chief Operating Officer of the Company during those periods for consulting services rendered to the Company. These amounts were charged to General and Administrative Expense. This individual became Chief Executive Officer of the Company, effective December 1, 2007.

For the nine months ended September 30, 2007, the Company paid \$40,851 (2006 - \$40,080), including \$6,114 owing as at September 30, 2007 (December 31, 2006 - \$ nil) to MHC Corp., a company owned by the Chief Executive Officer of the Company during those periods for consulting services rendered to the Company. These amounts were charged to General and Administrative Expense. This individual resigned as Chief Executive Officer of the Company, effective December 1, 2007.

For the nine months ended September 30, 2007, the Company paid \$55,928, (2006 - \$ nil), including \$9,731 owing as at September 30, 2007 (December 31, 2006 - \$ nil) to Harbour Oilfield Consulting Ltd., a company owned by the Vice President – Operations of the Company for consulting services rendered to the Company. These amounts were charged to General and Administrative Expense

For the nine months ended September 30, 2007, the Company paid \$91,310 (2006 - \$ nil), including \$15,993 owing as at September 30, 2007 (December 31, 2006 - \$ nil) to the Chief Financial Officer of the Company for services rendered to the Company. These amounts were charged to General and Administrative Expense.

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 September 30, 2007 and December 31, 2006, no other amounts were owing to any related parties for services rendered.

## 17. SEGMENTED INFORMATION

The Company's geographical segmented information is as follows:

	Three Months Ended Sept. 30, 2007			Nine Months Ended Sept. 30, 2007		
	U. S.	Canada	Total	U. S.	Canada	Total
Income during the evaluation period	\$ -	(202)	(202)	-	225	225
Net Loss	18,007	807,938	825,945	30,563	1,756,476	1,787,039
Capital Assets	8,042,258	18,033,076	26,075,336	8,042,258	18,033,078	26,075,336
Total Assets	8,131,635	26,857,950	34,989,585	8,131,635	26,857,950	34,989,585
Capital Expenditures	7,452,373	11,079,643	18,532,016	7,477,423	17,270,182	24,747,605

  

	Three Months Ended Sept. 30, 2006			Nine Months Ended Sept. 30, 2006		
	U. S.	Canada	Total	U. S.	Canada	Total
Income during the evaluation period	\$ -	10,331	10,331	-	10,331	10,331
Net Loss	10,833	697,060	707,893	13,500	1,471,075	1,484,574
Capital Assets	248,871	1,239,613	1,488,484	248,871	1,239,613	1,488,484
Total Assets	564,873	2,001,746	2,566,619	564,873	2,001,746	2,566,619
Capital Expenditures	116,871	268,714	385,585	116,871	1,492,987	1,609,858

## 18. CHANGES IN NON-CASH WORKING CAPITAL

	Three Months Ended Sept. 30, 2007	Three Months Ended Sept. 30, 2006	Nine Months Ended Sept. 30, 2007	Nine Months Ended Sept. 30, 2006	Cumulative Since Inception April 7, 2004 to Sept. 30, 2007
Operating Activities:					
Accounts Receivable	\$ (18,973)	(74,879)	(42,256)	(177,074)	(75,092)
Prepaid Expenses	(7,004)	7,344	(30,272)	33,733	(78,167)
Accounts Payable	1,749	(27,319)	8,899	(17,180)	122,304
Accrued Liabilities	8,893	(198,760)	(30,894)	(87,604)	42,210
Convertible Debt	-	-	-	(41,189)	-
Other	-	-	-	-	25,000
<b>Total</b>	<b>\$ (15,335)</b>	<b>(293,614)</b>	<b>(94,523)</b>	<b>(289,314)</b>	<b>36,255</b>

### Investing Activities:

The changes in investing activities non-cash working capital accounts as detailed below pertain to capital asset additions and have been included in that caption in the Statement of Cash Flow:

Accounts Receivable	\$ (797,192)	(342,958)	(579,697)	(357,433)	(1,232,836)
Prepaid Expenses	186,748	-	153,117	-	14,174
Accounts Payable	(167,937)	(73,489)	786,913	52,788	1,228,691
Accrued Liabilities	(365,693)	106,492	(184,181)	62,132	16,565
<b>Total</b>	<b>\$ (1,144,074)</b>	<b>(309,955)</b>	<b>176,152</b>	<b>(242,513)</b>	<b>26,594</b>

### Financing Activities:

The changes in financing activities non-cash working capital accounts as detailed below pertain to shares issued and issuable and have been included in that caption in the Statement of Cash Flow:

Accounts Receivable	\$ (2,121)	-	(2,121)	-	(2,121)
Prepaid Expenses	-	-	-	10,000	(10,000)
Accounts Payable	11,034	-	(17,815)	-	12,257
Accrued Liabilities	111,908	-	331,908	-	331,908
Flow-through Share Premium	933,335	-	933,335	-	933,335
<b>Total</b>	<b>\$ 1,054,156</b>	<b>-</b>	<b>1,245,307</b>	<b>10,000</b>	<b>1,265,379</b>

## 19. NEW ACCOUNTING STANDARDS

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. The Company adopted FIN 48 effective January 1, 2007. See note 10 for additional information.

The following new accounting standards have been issued, but have not yet been adopted by the Company as at September 30, 2007:

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 FASB 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.

## 20. SUBSEQUENT EVENTS

### Private Placement Financings

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 \$83,400.

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 \$299,900.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

All statements contained herein that are not historical facts, including, but not limited to, statements regarding the Company's current business strategy, the Company's projected sources and uses of cash, and the Company's plans for future development and operations, are based upon current expectations. These statements are forward-looking in nature and involve a number of risks and uncertainties. Actual results may differ materially. Among the factors that could cause actual results to differ materially are the following: the availability of sufficient capital to finance the Company's business plans on terms satisfactory to the Company; competitive factors; changes in labor, equipment and capital costs; changes in regulations affecting the Company's business; future acquisitions or strategic partnerships; general business and economic conditions; and factors described from time to time in the reports filed by the Company with the Securities and Exchange Commission. The Company cautions readers not to place undue reliance on any such forward-looking statements, which statements are made pursuant to the Private Litigation Reform Act of 1995 and, as a result, are pertinent only as of the date made.

### Restatement

In March, 2009, we determined that it was necessary to restate our unaudited financial statements as at September 30, 2007 and December 31, 2007. The purpose of the restatements is to correct an error in measurement and an error in the application of US GAAP in the course of recording certain September, 2007 transactions as described in Note 2. Certain amounts and comments in this Management's Discussion and Analysis have been restated and/or updated to reflect the impact of the restatement adjustments. For a full discussion of current operations relating to our properties, please see our current Annual Form 10-K for the Fiscal Year Ended December 31, 2008.

### PLAN OF OPERATION

The Company is an exploration stage 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 Company has no oil and gas reserves or production.

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 seller of the prospect.

The Company 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 Company has carried out the following activities during the year to date 2007 period and during the next twelve months, the Company plans to aggressively pursue the development of its asset base.

## Canada

### Northwest Territories – Little Chicago

The Company is the operator of the Little Chicago prospect in the Northwest Territories of Canada under an original farm-out agreement with the two 50% working interest owners of a 200,000 acre exploration license (EL 413). The prospect is located in the Mackenzie River Valley, centered along the planned Mackenzie Valley Pipeline. Under the farm-out agreement, as of September 30, 2007, the company had spent approximately \$6,800,000 to acquire 2D seismic data, thus earning a 12.5% working interest in the prospect as of April 2007. The Company acquired an additional 43.75% working interest on September 28, 2007, from Thunder River Energy, Inc., in an asset transaction in respect of the prospect and other assets of Thunder. Currently, Kodiak has a 56.25% working interest in the prospect. Kodiak has the further right to earn additional working interests in the prospect upon drilling wells and is negotiating additional earnings for obtaining seismic data. The completed seismic program consisted of 84 Km high resolution data. The company also has obtained an engineering prospective report with respect to the property. There are 13 shallow drill targets defined with the potential for shallow depth petroleum and some potential for medium depth petroleum. There may be gas in the area, but development of any natural gas will be deferred until there is a pipeline in the area. The Company is planning on completing a further seismic program by the end of the second quarter of 2008 which is expected to cost approximately \$5,500,000. After evaluating the seismic program the Company will use the results of this and the previous year's program to identify 2 to 3 drilling sites. The Company plans to drill those locations during the winter of 2008/2009. Due to the high costs of the project, the Company expects to source additional partners for the drilling programs.

This prospect is subject to a 1% gross overriding royalty to Time Stratigraphic, a 12.5% Canadian federal royalty on production and annual rental payments to the Department of Northern and Indian Affairs, Canada, and an Area of Mutual Interest (AMI) with partners on a 12 km radius of the prospect boundary.

### Northern British Columbia – Lucy

The Company has a 7% working interest in a natural gas well in Northern British Columbia located forty miles northeast of Fort Nelson. The prospect consists of approximately three square miles located in the North Yoyo Otter Park shale basin. Seismic reports covering the Lucy prospect indicate a possible lower level reef build up equivalent in age to the nearby Mel, Yoyo and Sierra reefs. In the vicinity of the Lucy prospect there are active gas operations. The first well was drilled in December 2006. After some difficult drilling conditions, the lower zones have been abandoned. The company is responsible for paying 10% of any abandonment costs in excess of the existing costs which the company has paid fully to date. The Company is planning to initiate an independent operator drilling program on this property. By initiating independent operators, The Company expects to earn a working interest of between 40 to 50 percent. The Company anticipates the well will be drilled during late 2007. Testing will be initiated immediately, and based on the testing results, the well will be tied in as soon as possible. The possibility of additional wells will be reviewed during the following season. The estimated cost of this program is planned to be \$1,500,000. To date, the company has expended approximately \$270,000 in connection with this property.

### Northern Alberta – Fort McMurray

In January 2007, the Company, jointly with two partners (one which has let its interest expire), acquired two blocks of petroleum and natural gas licenses over sixty-four sections of land near Fort McMurray in northeastern Alberta. The licenses are for all the petroleum and natural gas rights from the base of the Woodbend formation to fifteen meters into the top of the Precambrian section subject to a 2.5% gross overriding royalty reserved for the seller in the prospects. The Company's initial working interest is 50%. The Company plans to initiate a seismic program on this property during the winter of 2007/08 which is estimated to cost approximately \$300,000. Based on the results of the seismic program, a drilling program of 6 to 12 wells is expected to follow which would cost approximately \$1,500,000. The prospect requires a payment of \$28,672 in annual rentals.

### Southeastern Alberta – Province/Granlea

The Company, jointly with a partner, purchased two sections, approximately 1,280 acres gross, 640 acres net, of petroleum and natural gas rights at a provincial land sale on September 22, 2005. The Company has a 50% working interest in this property. A 2D seismic program was completed on the property in the fourth quarter of 2005, and a well was drilled and completed and production commenced in September 2006. Various surface facilities were installed and a pipeline tie-in was completed. Although the initial drilling showed good pressure and some water, in October 2006, there was a substantial increase in water rates. Finally, because of the water rates, the well was shut-in during July 2007. The well bore has been evaluated and has been abandoned due to having no present economic production potential. The company intends to sell the surface facilities. The Company expended approximately \$550,000 in connection with this property. The company will consider additional internal geological reviews of the prospect to evaluate whether or not the land offers any future drilling potential.

#### Southeast Alberta - Manyberries

The Company farmed into these lands which comprise nine sections (5,760 acres) of undeveloped petroleum and natural gas rights in southeast Alberta. The Company drilled two wells and recompleted one other well on the Manyberries property, which earned the Company a 66 2/3% interest in the lands. After testing multiple formations in each of the wells, no economic production potential could be attributed. Due to the high cost of development and the associated risk, the Company will release the nine sections back to the Crown and abandon the wells in the fourth quarter of 2007.

#### United States

##### New Mexico

On September 28, 2007, The Company acquired a 100% interest in 55,000 acres of prospects located in northeastern New Mexico from CIMA Holdings Inc., a subsidiary of Thunder River Energy, Inc. The company believes that natural gas and commercial volumes of CO<sub>2</sub> have been found in existing wells in the area. The company also believes that there is the potential for oil and helium mineralization at shallow depths. The prospects are subject to a 5.5% gross over-riding royalty on production to five individuals, state royalties on state lands at 12.5% of production and federal royalties on federal lands at 12.5% of production.

The Company, through its subsidiary, Kodiak Petroleum (Montana), Inc. is planning a seismic program on this property by end of the fourth quarter of 2007, followed up by a 3 to 6 well drilling program based on the seismic results. The Company also intends to acquire additional mineral rights adjacent to the property. The seismic work is expected to cost approximately \$1,000,000 and the drilling program approximately \$1,500,000. Whether or not the company will pursue production will be immediately evaluated after completion of the seismic and drilling programs, and if the results are favorable, the company will initiate plans and seek additional financing to take this project to the development stage.

##### Montana

Under a joint venture agreement, the Company acquired seismic data and a right to drill a 2 to 3 well drilling program for a 50% working interest in the wells and the right to participate on a 50% working interest basis going forward. The Company must participate at the 50% capital requirement to continue to earn 50% in additional lands. Two wells were drilled in the third quarter of 2006, one of which is cased for subsequent evaluation of the multiple zones found in the prospect and one of which was abandoned. A third well is licensed and will be drilled depending on the results of testing on the first well. To date, the Company has expended approximately \$540,000 in connection with this prospect. The prospect is subject to a 12.5% petroleum and gas royalty on 100% of production.

#### Financial Condition and Changes in Financial Condition

The Company had no income during the evaluation period for the nine month periods ended September 30, 2007 and 2006, except for \$225 in 2007 resulting from a 4<sup>th</sup> Quarter 2006 revenue under-accrual.

Net Loss for the nine months ended September 30, 2007 totaled \$1,787,039 (2006 - \$1,484,574). Those losses include general and administrative costs comprising expenses relating to personnel consulting, office, investor relations, public company expenses, audit legal and accounting fees and other general and administrative costs. In addition the 2007 loss includes stock-based compensation expense, interest expense and deferred income tax expense. Depletion, depreciation and accretion for the periods includes depreciation of furniture and fixtures and accretion of asset retirement obligations. In addition, 2006 depletion, depreciation and accretion includes a ceiling test write-down as a result of impairment in the Company's Canadian geographical cost center.

## Liquidity and Capital Resources:

From inception to September 30, 2007, the Company has financed its operations primarily from the sale of securities and loans from shareholders. During the second and third quarters of 2007, the Company obtained \$3,300,000 in unsecured 9½% notes payable from a European lender. 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 10 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 Company to carry on operations into mid 2008. Additional financing may then be required.

As of September 30, 2007, our assets totaled \$34,989,585, at cost (December 31, 2006 - \$2,707,075) which consisted of cash and other current assets of \$8,797,429 (2006 - \$1,331,159); oil and gas properties and equipment of \$26,075,336 (2006 - \$1,326,056) and other assets of \$116,820 (2006 - \$49,860). Our total current liabilities were \$3,438,586 (December 31, 2006 - \$859,103) and consisted of accounts payable and accrued liabilities aggregating \$1,772,751 relating to capital activities and general and administrative costs incurred during the nine months ended September 30, 2007, notes payable of \$732,500 and \$933,355 premium liability relating to Canadian flow-through shares issued. We had asset retirement obligations of \$108,811 (December 31, 2006 - \$90,911), deferred income taxes of \$55,480 (December 31, 2006 - \$Nil) and shareholders' equity of \$31,442,188 (December 31, 2006 - \$1,757,061).

During the nine months ended September 30, 2007, the company raised \$28,628,130, net of share issue costs, in private placement financing proceeds. These financings together with the proceeds of the notes payable have enabled the Company to finance its on-going capital expenditures and general and administrative expenses. Additional financing will be required to enable the Company to carry out the balance of its planned activities for 2008.

## RAISING CAPITAL

The Company currently has the capital resources to fully implement and carry out its 2007 business plan and a substantial portion of its 2008 plan as described herein. However, we expect to raise additional capital, either through debt, equity or a combination thereof to finance the balance of our 2008 program. In the event that additional capital is raised at some time in the future, existing shareholders will experience dilution of their interest in the Company.

## ITEM 3. CONTROLS AND PROCEDURES

### 2005 Restatement

During the process of preparing the Company's Quarterly Report on Form 10-QSB for the Fiscal Quarter Ended September 30, 2006, the Company's CFO, at that time, 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 consolidated 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 2005 and 2006 Material Weakness in Internal Control

During December, 2006 and the first half of 2007, the company hired a Controller, a new CFO and a Vice-President Operations and additional qualified personnel. The new staff and existing management have implemented new procedures and controls for many areas of the Company's activities. During 2007, the Company initiated a review of its corporate policies and procedures with the assistance of an outside consulting firm, with a goal of having the Company become fully SOX compliant by year end 2007. Additional policies and procedures have been implemented and others strengthened. Testing of such policies and procedures was completed in late 2007 and early 2008.

Under the direction of the Chief Executive Officer and Chief Financial Officer, we have evaluated our disclosure controls and procedures as currently in effect, including the remedial actions discussed above, and we have concluded that, as of this date, our disclosure controls and procedures are effective.

### 2007 Restatement

During the process of preparing the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2008, it was determined that it may be necessary to restate our consolidated financial statements for the Fiscal Quarter Ended September 30, 2007 and the Fiscal Year Ended December 31, 2007. The restatements would be required to correct for an error in measurement and an error in the application of U.S. generally accepted accounting principles ("US GAAP") in recording two September, 2007 transactions as described in Note 2 to our unaudited consolidated financial statements.

After discussing these matters with other management, the CFO 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 March 13, 2009, that previously reported results for the Company be restated. On March 27, 2009, amended consolidated financial statements for the above noted periods were filed.

Both of these errors resulted from the Company not seeking appropriate external advice regarding the accounting of certain transactions that were complex and not subject to routine accounting principles. One error was in measuring the appropriate date at which common shares of the Company were issued in consideration for the acquisition of unproved oil and gas properties, an arm's length transaction that was negotiated over a period of several months during 2007 but not finally closed until September 28, 2007, at which date the common shares were issued. The second error was in the application of US GAAP in the accounting for the complexities involved relating to premium proceeds received on the issue of Canadian flow-through shares, a Canadian income tax concept not in practice in the United States. These errors demonstrated a material weakness relating to the segregation of duties among financial and accounting personnel and a need to engage additional personnel or seek outside advice where appropriate to strengthen internal control over financial reporting.

### Remediation of Weakness in Internal Control Over Financial Reporting

In addition to the strengthening of internal control over disclosure controls and procedures discussed above, the Company will endeavor to engage outside consulting assistance to ensure the proper accounting for non-routine accounting transactions and compliance with US GAAP. Beginning in 2008, the Company engaged an outside consulting firm to assist in income tax planning and compliance and beginning with our fiscal year ended December 31, 2008, to review our Canadian and U.S. income tax provisions.

### Evaluation of Internal Control over Financial Reporting

As at September 30, 2007 and December 31, 2007, management believes the Company's Internal Control over Financial Reporting does not meet the definition of adequate control, based on criteria established by Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management identified a material weakness relating to the segregation of duties among certain personnel who had incompatible responsibilities within all significant processes affecting financial reporting. We also had a material weakness resulting from our failure to implement adequate 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. As a result of these material weaknesses, management has concluded that the Internal Controls over Financial Reporting were not effective as at September 30, 2007 and December 31, 2007.

As at December 31, 2008, the Company continues to have a material weakness in internal control over financial reporting, relating to the segregation of duties among certain personnel. Management believes that without engaging additional personnel, estimated to cost a minimum of approximately \$150,000 per annum, we cannot remedy such material weakness. Management believes such expenditures cannot be justified at this time when the Company is still in the exploratory stage of operations and has no proved reserves, production or cash flow. When sufficient cash flow is being

generated, management will review its position. Management believes its controls and procedures related to its financial and corporate information systems are appropriate for a company of its size and mandate and due to its internal expertise, it is not dependent upon the inherent risks in external third party management of such systems.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On February 20, 2007, pursuant to subscription agreements, the Company closed a private placement with an investor for 420,000 units at a \$1.25 price per unit for gross proceeds of \$525,000. Each unit entitled the subscriber to one common share of the Company and one common share purchase warrant. Each warrant entitles the warrant holder to exchange one warrant for one common share of the Company at a price of \$1.50 until February 20, 2009. The 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, pursuant to subscription agreements, the Company closed private placement financings with investors 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.

On September 28, 2007, pursuant to subscription agreements, the Company closed brokered private placement financings with investors for 2,756,000 common shares at a price of \$2.50 per share and 1,866,670 flow through common shares at a price of \$3.00 per share for gross proceeds of \$6,887,244 and \$5,598,143 respectively. In connection with these offerings, the broker was granted warrants to purchase, until March 28, 2009, 220,480 common shares at a per share price of \$2.50 and 149,334 common shares at a per share price of \$3.00.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

Item 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

EXHIBITS

- 31.1 - Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 - Certification of Chief Financial Officer to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 - Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KODIAK ENERGY, INC.  
(Registrant)

Dated: March 27, 2009

By: /s/ William S. Tighe  
William S. Tighe  
Chairman, CEO, COO and President

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, William S. Tighe, certify that:

1. I have reviewed this amended quarterly report on Form 10-QSB/A of Kodiak Energy, Inc.
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)) and internal control over financial (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have
  - a) designed such disclosure controls and procedures, or caused such disclosure and 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 small business issuer's disclosure controls and procedures and presented in this 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 report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer'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 small business issuer's internal control over financial reporting.

Date: March 27, 2009

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

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CHIEF FINANCIAL OFFICER CERTIFICATION

I, William Brimacombe, certify that:

1. I have reviewed this amended quarterly report on Form 10-QSB/A of Kodiak Energy, Inc.
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)) and internal control over financial (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer 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 small business issuer's disclosure controls and procedures and presented in this 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 report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions)
  - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer'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 small business issuer's internal control over financial reporting.

Date: March 27, 2009

/s/ William Brimacombe \_\_\_\_\_  
William Brimacombe  
Chief Financial Officer

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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 amended quarterly report of Kodiak Energy, Inc. on Form 10-QSB/A for the period ended September 30, 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 27, 2009

/s/ William S. Tighe  
Name: William S. Tighe  
Title: Chief Executive Officer

Dated: March 27, 2009

/s/ William Brimacombe  
Name: William Brimacombe  
Title: Chief Financial Officer

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