

**QUEST OIL CORPORATION**

**(QOIL - OTC:OB)**

Exchange: **OTC Bulletin Board**  
Website: <http://www.questoil.com>  
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Recent Price: **\$0.4300**

**SPECULATIVE STRONG BUY**  
6-Month Price Target: \$1.30

*Junior Oil and Gas Company on the Rise*

*Company Overview*

**Quest Oil is committed to the exploration and development of economical oil and natural gas reserves throughout North America. Quest management is focused on an acquisition program targeting high quality and low risk prospects. Initially Quest is focused on the development of North American oil and gas resources allowing highly leveraged production opportunities in Alberta and Texas, through its 100% owned subsidiaries Quest Canada Corp., Wallstin Petroleum LLC and PetroStar Oil Service, Inc.**

- **Company successfully drills "10-22" well for extraction of natural gas in Acadia North prospect in Canada.** Connection to Altagas pipeline infrastructure has been completed **currently producing 2 million cubic feet of gas per day (mmcf)**.
- **Company has already secured interests in a total of 4 projects.** These are the **Acadia North** and **Empress property** both located in **Alberta, Canada**, targeting natural gas production. The remaining **United States projects** situated in state of Texas which contain rich oil and gas reserves, namely **Hawkeye Lease in Eastland County, Texas** and **Nettie Gardner in McCullough County.**
- **Glance at Reserves & Production Guidance: (1) Nettie Gardner, TX** – Proven and Probable Reserves of **125 000 barrels of oil**. 3 Proposed Oil wells (3,5,7) expected to be producing in proximity of 50 barrels per day. This equates to \$6.25 million using \$50 per barrel assumption. Natural Gas reserves currently unavailable. Gas wells currently estimated to produce between **250 and 530 mcf/day**. **(2) Hawkeye, TX** – Proven and probable reserves estimated at **750 000 barrels** of oil in Adams Branch Limestone over the next 20 years. **(3) Acadia Project (Alberta, Canada)** - 3 Well drilling program (10"22, 15"34 & 6"23). **Gas pool under '10-22' well is 3.2 MMscf of proven and probable reserves. PV10 value using a natural gas price assumption of \$4.00/Mscf yields a value of \$12.75 million. If additional possible reserves are included the value rises to \$17 million.** The company forecast revenue over life of this well at \$24 million. **By year-end 2005 the company anticipates daily production of 6 to 8 mmcf at Acadia from 6 natural gas wells. (4) Empress Prospect (Alberta, Canada).** Company intends completion of drilling on 4 sections but no reserve figures have been clearly determined yet.
- **Quest Oil has attracted industry talent and has built a strong and experienced management team** that has already illustrated their competence. Rapid progress has been made over the past 12 months in establishing valuable joint ventures and implementing their initial objectives in effecting the business plan for QOIL.
- **QOIL closed milestone financing of \$8 million through private placement of Series B convertible debentures.** This necessary funding enables Quest Oil to accelerate their development activities at Empress property and this in our view has substantially alleviated lingering risk to shareholders of company encountering medium term difficulties to stay the course on planned projects to build shareholder value.
- **Management anticipates that recent capital raised will allow the company to generate cashflow in region of \$38 million over the coming 12 month period.**
- **Technology is another significant focus for QOIL.** Technological methods used in technical evaluation and geophysics analysis of prospects are viewed as critical and will provide a strategic advantage to the future of the company.
- A potential positive catalyst is the **pursuit of international properties** most likely in Europe, where an acquisition may be announced in FY2007 that should bolster reserves and improve investor appeal.
- **Shares appear attractive in relation to current proven & probable oil and gas reserve valuation. See INVESTMENT THESIS & RECOMMENDATION (Page 7).**

| QUEST OIL CORPORATION                |           |             |          |
|--------------------------------------|-----------|-------------|----------|
| <i>(all figures in Millions)</i>     |           |             |          |
| 52 Week Hi/Lo Range                  | 0.09/2.00 |             |          |
| Fiscal Year End                      | 31-Mar    |             |          |
| Shares Outstanding                   | 64.77     |             |          |
| Float                                | 30.0      |             |          |
| Share price (10/24/2005)             | 0.43      |             |          |
| Market Cap                           | 27.9      |             |          |
| Average Volume (3 mo)                | 1.644     |             |          |
| Insider Ownership                    | 12%       |             |          |
| Institutional Ownership              | 25%       |             |          |
| Enterprise Value                     | 36.9      |             |          |
| Total Debt                           | 9.24      |             |          |
| Total Cash (09-01-05)                | 0.223     |             |          |
| Earnings Per Share (EPS)             | FY2005 A  | FY2006 E    |          |
|                                      | -0.05     | -0.03       |          |
| Book Value per share                 | NA        |             |          |
| Total Revenue                        | FY2005 A  | FY2006 E    | FY2007 E |
|                                      | NA        | 2.94        | 27.6     |
| Operating expenditures & Exploration | 1.065     | 2.5         |          |
| Net Loss                             | -0.998    | -0.32       |          |
| Reserves (Proven & Probable)         | Canada    |             |          |
| Acadia North                         | BCF       | Price/mmscf | Value    |
| 10 22 Well - Natural Gas             | 3.2       | 4.0         | 12.75    |
| Empress                              | NA        |             | NA       |
| US-Texas                             | Barrels   | Price/Bbl   | Value    |
| Nettie Gardner                       | 125000    | 50          | 6.3      |
| Hawkeye                              | 750000    | 50          | 37.5     |
| Wallstin Petroleum LLC Assets        |           |             | 4.64     |
| Total (\$millions)                   |           |             | 61.14    |
| Market Cap as % of Reserves          |           |             | 45.6%    |
| NA=Not Applicable/Not Available      |           |             |          |
| Common Stock                         | 450.0     |             |          |
| Preferred Stock                      | 50.0      |             |          |
| Authorized Shares                    | 500.0     |             |          |

**USA Main Headquarters**

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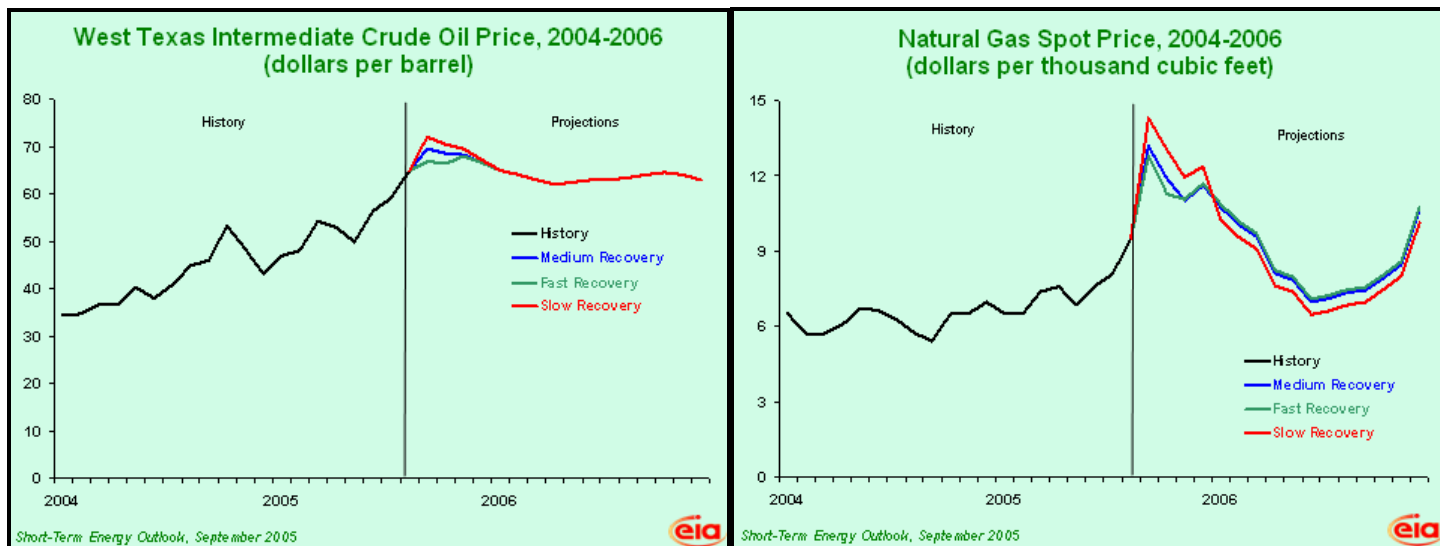
**COMPANY**

With a strong commitment to the exploration and development of oil and natural gas reserves throughout western Canada and the eastern U.S., Quest Oil has successfully undertaken an acquisition program that has, from the onset, targeted high-quality and low-risk oil and gas prospects. Quest Oil has achieved this via key strategic alliance partnerships with veteran, experienced oil and gas professionals in both Canada and the U.S. The Company continues to concentrate substantially all of its efforts in raising capital and developing business operations in the oil and gas sector. Through the use of modern development techniques such as horizontal drilling and 3-D seismic, the company enhances production from underdeveloped and under-utilized projects, as it pursues oil and gas production throughout North America. QOIL shares of common stock began trading on June 10, 2004 on the NASDAQ Bulletin Board. As of June 23, 2005, there were approximately 221 record holders of common stock.

**INDUSTRY**

The longer-term view on the oil and gas exploration and production (E&P) sector remains rosy given the strong rise in prices over the past 12 months across the entire energy complex. Hurricane Rita and Katrina that recently damaged energy production infrastructure in Gulf of Mexico, were responsible for lifting crude oil and natural gas prices to historic highs. Drilling and exploration activity is increasing in response to the oil price boom. We are expecting some moderation from recent highs in the near term and stabilization around current levels, but for oil and natural gas prices to continue to remain well supported by growing demands. We are not proponents of demand destruction argument longer term, even though some data has shown demand for products such as gasoline falling in recent weeks. From a more fundamental supply/demand view, we believe that world spare production capacity per day will average below 2 million barrels in calendar 2006 and possibly decline even more thereafter, which intensifies the pressure on necessary inventory buildup and maintain pricing at elevated levels.

A recent presentation by the Technical Assistant to the Director of the EIA, Susan H. Holte, showed the following 2005/2006 price projections for oil and natural gas.



The larger more established E&P companies on average are up more than 70% year to date. A colder-than-normal winter could underscore a further run in the group before year-end. We believe that E&P sector will continue to outperform the broader markets, while the majority of the analyst community, is using estimates for crude oil and/or natural gas prices that are lagging well behind the current spot prices for earnings estimates and valuation work done on the group. We maintain an "overweight" rating on E&P and recommend investors to add to positions on price dips or pullbacks and we prefer companies that are more leveraged to natural gas. We believe near term weakness in energy stocks and spot pricing is due to seasonality rather than reflective of a major change in underlying fundamentals.

The higher price environment we find ourselves in should bode well for oil and gas exploration companies that can bring new supplies to market to help reduce US dependency on foreign sources of energy.

## PROPERTIES AND PROJECTS

### Acadia North Prospect - Eastern Alberta, Canada

Alberta, Canada has the second largest crude oil and gas reserves in the world, second only to Saudi Arabia.

In November of 2004 QOIL entered into an agreement with Vega Resources, an Alberta company whereby the company acquired 100% working interest in the 1,280 acre Acadia North prospect with a net retained interest of 79%. The location of the prospect is 160 miles east of Calgary in an area that contains the Viking Gas Reservoir. The Viking reservoir in the prospect area was first produced in 1978, with over 1BCF gas being produced out of a possible reserve potential of 12 BCF and an estimate life of 13 years. Two gas exploration concessions (Section 22 & 34) on the Acadia North prospect were targeted for exploration.

The company provided monies of \$30,000.00 CDN to Vega Resources for seismic review. Subsequently the company signed an agreement dated February 1st, 2005 to have TransAction Oil & Gas Ventures, Inc. provide drilling and operational services. A 2 well drilling program was initiated, namely wells 15-34 and 10-22 with budget forecasts for of drilling, completion and tie-in on a per well basis is estimated at \$500,000. On June 20, 2005 well 10-22 was drilled to a depth of 719 meters and plugged. Well 10-22 was successful in entering the Viking pool, experiencing blowout, hereafter the hole was shut-in.

A Third party engineering firm "Chapman Engineering" later confirmed that reserves proved and probable of 3 BCF with a revenue value of \$18 million for the 10-22 well. The '10-22' well tested at rates of 5 million cubic feet per day (mmcf) at a high back pressure. This is a very strong well and will be held back to 1 mmcfpd to 2 mmcfpd for engineering reasons. Production rate for well "10-22" will be 2 mmcf. Gross revenue is estimated at \$735,000 monthly and connection to a pipeline for commercial delivery for startup was announced on October 17,2005 and is coming from one well at the 10-22- 25-02 W 4M location. Two additional wells at "15-34" and "6-23" well locations are expected to come online next month assuming rig availability. By year-end, Acadia production is expected to approach 8 mmcf from 6 producing natural gas wells.

### Arneson Well 15-34-25-2-W4M

The well penetrated the Viking Sand on August 8 and is currently shut in due to lost equipment in the hole. Testing and data collection was suspended for well "15-34" due to a break in the endless tubing coil. At the time of drilling out of casing, the bottom-hole motor and bit were lost down hole. The Company has called in contractors to fish out the motor and continue with testing upon its removal. Prior to losing the motor, the well produced gas at measured rates exceeding 0.130 MMcf. Richard Johnson the project engineer said that high wellhead pressure measured during the drilling out process indicated the reservoir is not drained by production from offsetting wells and still contains significant gas reserves.

Quest Oil is considering implementing a 3D seismic program to fully understand the extent of the reserve throughout the Acadia valley. Based on the data received by the drill program, the reserve is significantly larger than expected and the Viking sand characteristics show sand thickening in areas. The company is also evaluating the economics of drilling two wells per section to drain the natural gas reserves to take advantage of the high commodity price.

A gas line owned by AltaGas runs through both sections of the project and connects to its processing plant. AltaGas is a commercial gas carrier and processor. QOIL plan is to simply connect its well(s) directly to the AltaGas lines and to begin gas sales. Based upon discussions with AltaGas, the cost to gather, process and deliver to market is approximately 50 cents per mcf.

More recently the company acquired an additional sale in Alberta, namely section 23-25-2w4m that is close to the 10-22 well site and able to also seamlessly connect to Altagas pipeline if needed. No drilling and testing has been done at this site, but we expect that once drilling has been completed it will likely add to proven oil and gas reserves of QOIL given its location.

### Empress Prospect - Eastern Alberta,Canada

Quest Oil acquired a 100% working interest in the Empress Project, located 160 miles east of Calgary, Alberta. Empress consists of 4 sections of Crown P&NG rights. The working interest covers 4 sections contingent upon the completed drilling of well 12-15 24-2W4M. The Empress Project holds the lease rights from surface to basement entailing five known production zones, which magnifies the scope for finding reserves at Empress as opposed to Acadia North that only overlay the Viking Reservoir. Well "12-15" will be operated by Transaction Oil and Gas Ventures Inc. at an AFE of \$450,000 drilling and casing. Gas and oil delivery and sales can commence as soon as the wells are equipped and tied-in, pipeline and delivery systems are less than one km from well head.

*See Appendix A-I for Analyst Certification and Important Disclosures.*

Empress is a project that fits QOIL strategy of low risk and high return, given cumulative production from this reservoir has been over 2BCF from lands contiguous to this project. Data recorded identifies 5 underlying zones: Bakken, Banff, Detrital, Colony and Viking are all proven producing structures in the area. Seismic indicates a Bakken high under the project as well seismic indicates a Banff limestone high under the license, overlying the Bakken high. The Colony sand has tested gas in the area. Viking formation gas wells in the area produce gas at rates of up to 3 mmcf/d.

The Viking zone, 85 meters above the Colony, contains natural gas in wells contiguous to both southwest and north sides of the Project. Mapping indicates that the reservoir continues under the Project land. Pressure analysis of producing gas wells shows that 16 BCF of natural gas were originally in place in the Viking reservoir contiguous to the Project on the north side. Gas is present in two wells immediately south of the leases and a new discovery well "11-16" shows evidence of producing 0.50 MMcf/d.

In September 2005, QOIL announced that it drilled the 12-15-24-2w4m gas well to a depth of 3231 feet to the bottom of the Bakken Formation. DST (Drill Stem Testing) has been performed extensively resulting in multiple indications of natural gas in the well bore. Transaction Oil and Gas has been authorized to schedule a rig to perforate and flow test the well. QOIL has earned the right to the original 4 sections of the Empress concession, after successful completion of the first well drilling and has the option to drill on the remaining 3 sections. Each of these sections needs to be drilled within consecutive 60 day periods in order to earn production rights to each individual section. The Empress Project is subject to 18% GORR (Gross Override Royalty Rate). All lands are Crown and are subject to usual Crown royalty.

**Hawkeye - Eastland County, TX**

Quest Oil concluded its purchase of 100% interest of the Hawkeye lease, Eastland County, TX. The purchase amount for the lease, well assets and infrastructure was \$90,000. The Hawkeye Field consists of 4 leases totaling 483 acres, with a total of 95 wells. Of the 95 wells on the lease, 48 wells are capable of immediately producing with remedial work by service crews. A work over budget of \$250,000 is required to initiate the project. When drilling commences on the Barnett Shale zone additional expenditures and reserves will be realized. Quest Oil's VP Operations, Joseph Wallen will be responsible for putting the lease back in production and developing a drilling program to test the reserves of the Barnett Shale. Quest CEO, stated that the lease has proven reserves with established wells, collection and storage facilities in place. With minimal investment Quest will yield 50,000 barrels of oil per year with an ROI of over 500%.

Although the producing reservoir in the Hawkeye Field is the shallow Adams Branch Limestone, every formation from Ellenberger up to the Adams Branch Limestone has produced oil in Eastland County. Preliminary estimates indicate approximately 1.2 million barrels of recoverable oil left in the Adams Branch Limestone in the Hawkeye Field. Due to the low reservoir pressures and previous production at this shallow level, water injection will have to be utilized to facilitate this recovery.

The reservoirs below the Adams Branch Limestone are virginal, i.e.; they have never been produced. The source for the oil in the Adams Branch Limestone is the Barnett Shale that underlies most of the area and is probably in the oil and gas window in terms of maturity. The biggest producer in the Hawkeye Field will ultimately be the Barnett Shale. This formation has been penetrated and does produce in the county. Its reservoir properties are uniform throughout the Fort Worth Basin, the only variation being thickness. The Railroad Commission that regulates oil and natural gas activities in the state of Texas, has lowered the spacing for Barnett Wells down to 20 acres. QOIL will be able to drill approximately 20 wells in the Barnett Shale on the lease.

Typical production for these wells based on QOIL staff's personal experience and studies published by Devon and EOG is approximately 1-2.5 BCF of gas per well. The company sees reserves in the Hawkeye Field ranging from 20-50 BCF, estimated value of \$30 million to \$75 million, or \$1.50/mcf. This is approximately 3.5 to 8.5 million barrels of oil equivalent in the Barnett alone. It is anticipated that the Ellenberger Limestone below the Barnett will be productive and as will the Marble Falls Limestone above the Barnett and the Bend and Caddo formations.

| Formation              | Reserves                       |
|------------------------|--------------------------------|
| Adams Branch Limestone | 1.2 million barrels of Oil     |
| Marble Falls Limestone | 2.5 million barrels of Oil     |
| Barnett Shale          | 3.5-8.5 million barrels of Oil |
| Ellenberger            | 4.5 million barrels of Oil     |

Estimated value of the oil reserves is \$11.7 million to \$16.7 million, at \$10/barrel of oil in place. For our current own reserve calculations we assumed that of these reserves in place at least 750 000 barrels will be produced at an average price of \$50 per barrel, which equates to aggregate reserve value of \$37.5 million. We believe there is merit in arguing that this valuation will prove to be too conservative given 4 formations.

A 3D seismic program has been planned to image the field and insure that optimum drilling locations are picked. This program will cover approximately one square mile and use a vibrator source.

*See Appendix A-1 for Analyst Certification and Important Disclosures.*

**Nettie Gardner, McCulloch County, TX**

On June 29, 2005, Quest purchased the Nettie Gardner lease for \$17,500 for 100% working interest with a GORR (Gross Over Riding Royalty) of 30%.

The Nettie Gardner lease is comprised of 116 acres, which forms the southernmost extension of the EXOC Field discovered in 1976 by the Bishop-Bierner-1 well. The field is located in northwest McCulloch County, Texas approximately one mile east of the town of Lohn. Stratigraphically, the main producing formation on the Bishop-Bierner and Nettie Gardner leases is the Strawn sandstone. Primarily a shallow water marine environment, the Strawn reservoirs are comprised of point bars complexes in this area. The Strawn sandstone has been further subdivided on the lease into the Gardner sandstone and the Jennings sandstone (just above the Gardner). Oil and gas production has been established in at least seven wells between the two leases in these two sandstones. The most productive sands on the Nettie Gardner lease are in the Jennings gas sands in the Gardner #1 well. Oil production has been established in the Gardner #2 well in the Gardner sandstone. The Gardner #1 gas well (currently shut-in) was never effectively produced. Production occurs from the Jennings gas sand and the Gardner sandstone for the oil at a depth of approximately 1,000 ft to 3,000 ft.

Initially the company guided that oil reserves are in the neighborhood of 125,000 barrels (\$6,250,000). No calculation was given for the approximate amount of gas reserves. That will come approximately 4 months after a production profile has been established for the gas wells. It is estimated that the three gas wells will produce anywhere from 250 to 520 mcf a day. Oil production is anticipated to be in the neighborhood of 50 barrels a day for the three proposed oil wells (3,5,7).

More recently we were told that estimated capex for the initial designed work program is estimated at \$323,500, which entails drilling 5 new wells, 3 oil and 2 gas, and work over of an existing gas well. The estimated cost to drill and complete one well is \$60,000, for a total of \$300,000. The estimated cost for work over is \$23,000. Production rate is estimated at 15 bopd/well and 35mcfpd/well, 3 oil wells and 3 gas wells producing an estimated 1350 bopm and 3150mcfpm. Average projected annual net return, after lease operating expense and taxes, at \$50/barrel and \$7.5/mcf is approximately \$10,300,000 over the life of the production. This is based on a 75% net revenue interest to Quest Oil.

**Wallstin Petroleum Acquisition**

On June 20, 2005 the Quest Oil entered in to a Memorandum of Understanding to acquire Wallstin Petroleum LLC with all rights, title and interest in the oil and gas leases it holds. It holds two leases, Stevenson of Hutchinson County, TX holds eight gas and oil wells and the Elder lease of Gregg County, TX holds one oil well. The Hutchinson County field is located in the Texas Panhandle and is a 50 well development program. The purchase price for the two sections was priced at \$403,000 for the 100% working interest subject to the issuance of the equivalent value in Company common shares. PV10 calculations indicate petroleum assets worth \$4,647,673. On August 05, 2005, the company completed the transaction by issuing 1,500,000 common shares of Quest Oil. QOIL offered positions of Chief Operating Officer to Bill Stinson P.Eng. and VP Operations to Joseph Wallen. Joseph Wallen accepted the position of CFO and Director of the Company in August 2005. Mr. Wallen will be responsible for overseeing the development of the Texas assets and bringing production on stream for the Hawkeye and Nettie Gardner lease.

**FINANCING**

On April 21, 2005 Quest Oil issued 9.2 million restricted common stock to retire \$461,000 in debt. In May 2005, QOIL engaged the services of Midtown Capital Partners Co., LLC to negotiate and secure a \$750,000 financing to forward its Acadia gas projects through issuance of convertible notes and warrants to institutional investors. On October 3, 2005 QOIL closed an additional \$8 million private placement of Series "B" convertible debentures. This milestone financing will allow QOIL the necessary funding to complete its drilling and development of Acadia and Empress Properties which are important near term projects to start generating revenue. The remaining capital that will not be used on US and Canadian operations are set aside for acquisition of additional low-risk properties with known geologic structures and proven reserves that have significant upside potential.

**Convertible Notes & Warrants**

The terms of the financing include the sale of \$8,000,000 of Series B Convertible Debentures that mature 24 months from the date of issuance. The Debentures pay 10% interest on an annual basis and are convertible, at the option of the holder, into common stock at \$0.40 per share common share. The Debentures contain an amortization schedule which requires QOIL to make payments on the Debentures, equal to 1/20th of the face value of the Debenture, plus accrued interest, beginning on the fifth (5th) month after the date of issuance. Interest and principal payments may be paid in cash or registered common stock. If payment is made in common stock, the payment amount will be made on a price equal to 90% of the average of the closing prices for the common stock for the ten days before a payment is due. If interest and principal payments are made in cash, the Debenture holders will be forced to accept cash and surrender the redeemed portion of the respective Debenture or convert that portion of the Debenture (including interest) into common stock at the Market Price.

*See Appendix A-1 for Analyst Certification and Important Disclosures.*

The Debenture holders were issued three (3) separate warrants. The Series A Warrant gives the holder the right to purchase, for two years, 100% of the common shares underlying the Debenture at \$.80 per share. The Series B Warrant gives the holder the right to purchase, for two years from the effective date of a registration statement, a number of common shares equal to 50% of the number of common shares underlying the debenture, at \$.46 per share. The Series C Warrant has a 7-year term and has an exercise price of \$.56 per share, but may only be exercised by a Debenture holder who has exercised an equal number of Series B Warrants.

Series A warrant holders can be forced to exercise their warrants if the stock price exceeds \$1.60 per share. Series B warrant holders can be forced to exercise their warrants if the stock price exceeds \$.56 per share.

## **RISKS**

QOIL is an exploration stage company early in its life cycle and has no present production revenues or financial history. The company's prospects are subject to all of the legal, regulatory and operational risks and expenses by companies in the oil and gas industry. The company may not be able to generate or obtain sufficient funds to operate its business and its financial statements contain a going concern opinion. Trading in the shares will continue to be subject to major fluctuations for the foreseeable future. Volatility in energy prices will have a major positive or negative impact on the price of the stock. The stock is thinly traded at prices below \$1.00 and selling of small positions could have a negative impact on the share price in absence of sufficient liquidity. Major dilution of common stock can occur if company issues large blocks of common stock or convertible notes are converted into common stock that can negatively impact on the value of the shares either theoretically or if sold in the open market. NASD and SEC Regulations covering rules on Penny Stocks apply for QOIL. The company has heavy reliance on key executives, the loss of which could have adverse results. Casualty risks e.g. blowouts, fires, explosions etc. exist and QOIL is not fully insured against all casualty risks and only carry insurance believed to be customary with best industry practices.

## **MANAGEMENT**

### **Cameron King, MBA - Director, President & CEO**

Mr. King, is a MBA from Michigan and finance graduate of McMaster University, with over 20 years of senior management experience developing expertise in capital markets, sales, marketing and public relations. Mr. King was a key member of the Corporate Banking team with the Bank of Nova Scotia in Toronto, Canada, specializing in Merger and Acquisition due diligence. Since 1995 Cameron has operated a successful Venture Capital Company by incubating, structuring and public listing several companies ranging from Internet based technology, mining, oil and gas exploration and telecommunications.

### **William Stinson - Chief Operating Officer**

Prior to becoming COO of Quest, Mr. Stinson has 28 years in the oil and gas business at the technical and management level. He has been a chief geophysicist and an exploration manager for major oil companies. Mr. Stinson worked several years for ARCO International and served in overseas posts in London, Indonesia, and West Africa. Mr. Stinson's geological expertise ranges from the continental U.S. to every major continent. He spent several months in Washington D.C. as a technical specialist to the House and Senate on the first major rewrite of the Outer Continental Shelf regulations. Mr. Stinson has published several technical papers in journals such as Geophysics, the technical publication of the Society of Exploration Geophysicists (SEG).

### **Joe Wallen - CFO/Director**

Mr. Joe Wallen who will serve in the capacity of Vice President Operations and Development. Mr. Wallen, Graduate of University of Texas at San Antonio Business School has spent the last 26 years performing operations and administrative functions for numerous mid-tier oil and gas companies. Although his main focus has been in the Texas oil and gas industry, Mr. Wallen has worked in the prolific Altamont-Bluebell Field in the Uinta Basin. Mr. Wallen's duties for Quest's Texas leases included auditing for the non-operators, preparation of AFE's for drilling and completion costs and estimation of expense in joint venture oil/gas wells. Mr. Wallen is well placed to understand the intricacies of oil and gas field accounting and operation.

### **Dr. Jim Irwin, Ph.D – Director**

Dr. Irwin brings over 25 years of instructional, research and field experience to the Quest team. Dr. Irwin obtained his B.Sc. in geology from McGill University, Montreal, in 1980 and Ph.D. in geology from the University of California, Berkeley, in 1986. Between 1986 and 1992 he was a Research Fellow in the Department of Physics at Berkeley developing techniques for the study of fluid inclusions in minerals associated with ore deposits and other geologic settings. Years 1992-1994 were spent as a Project Scientist at Scripps Institution of Oceanography, San Diego. Dr. Irwin has since been active as a consultant and director of various companies involved in mineral and resource exploration globally.

The company does not have any full-time employees; however, on a contract basis, QOIL has two individuals working for the Company in our Texas office and 4 individuals working in Canada.

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**Douglas Blackman - Secretary Director**

Douglas Blackman, BA LLB graduated from Trent University, Peterborough, Ontario in 1972 and Law School, University of Ottawa in 1975. He went to Calgary in 1975 and began his career in the Oil and Gas Industry in 1977 working in the Legal Department of BP Exploration Canada for four years followed by eight years with Suncor Inc in their Land/Legal Departments. During his years with Suncor, he worked on many negotiating Agreements with industry counterparts and Government officials, and worked closely with a team of geologists, engineers, and economists evaluating land positions and drilling opportunities for the Company in Alberta, BC, Saskatchewan and Manitoba both in the Exploration and Production sectors. Prior to emigrating to New Zealand in 1988 where he worked for Petrocorp in Wellington, NZ in 1989, Doug acted as a consultant for Imperial Oil for six months as an advisor on Esso's takeover of Sulpetro. Since 1997, Doug has acted as a consultant for many private and public Oil & Gas companies in Canada, as well as sitting on several Boards of public and private Canadian Companies. He continues to reside in New Zealand but spends most of the year in Vancouver/Calgary on business.

**Darren Hayes - Vice President of Business Development**

Mr. Hayes is a veteran business consultant bringing over 15 years of experience in sales & marketing, and business development. Mr. Hayes established himself as co-founder of Pacific West Technologies Inc. a private company specializing in beverage dispensing equipment, as the principle inventor of the DFC 9500.

**James Brown - Director**

James Douglas Brown graduated with an LLB from Edinburgh University in 1973. Mr. Brown currently sits on the board of directors of: Inyx, Inc. a medium-sized specialty pharmaceutical company; LIM Asia Arbitrage Fund, one of the oldest and largest hedge funds in Asia; and Eastern Capital Fund, a Russian equity fund. He is also a principal of Grasmere Limited, a privately held investment advisory company which specializes in the distribution of hedge funds and corporate finance. Prior to 1998, Mr. Brown worked as a director of Lund Gold Ltd. and Madison Enterprises Corp. From 1989 to 1998 he served as the Vice President of Citigroup, responsible for private clients in Saudi Arabia and managed assets in excess of USD 1 Billion and has worked in commercial and investment banking in Saudi Arabia for Saudi Investment Bank and Saudi French Bank.

**Richard Johnson, P. Eng Engineering - Special Advisor – Acadia North Project**

President of Opus Petroleum Ltd, and a professional petroleum engineer with 28 years of experience in the North American petroleum industry. Mr. Johnson has been involved in all phases of the upstream petroleum industry undertaking all aspects of both geology and engineering. He has extensive experience in the management and formation of public and private companies, and has sat on the Board of Directors of five publicly listed companies.

**INVESTMENT THESIS AND RECOMMENDATION**

Our analysis suggests that Quest Oil Corporation is an interesting speculative play among micro-cap companies that are involved in the exploration and development of oil and natural gas. We are impressed with the rapid progress made by management in the past 12 months and we will be monitoring advancement of Texas and Empress Properties closely in coming months. Both operating and financial risk involved in investing in a young exploration companies are extreme. We therefore only recommend investors that have a high tolerance for risk that are able and willing to forfeit either most or all of their capital invested in this situation, to consider investing in the shares. Quest Oil however allow those seeking to gain additional exposure to the oil and gas sector that already have holdings in larger established E&P companies, to reap extraordinary returns if success of 10'22 Acadia well is duplicated/exceeded at other sites. The regional expertise of their engineering team holds tremendous promise and is vital pillar in future of Quest Oil. We believe it is possible that more proven and probable reserves including production can be added in coming months. Should this transpire, an early entry into the shares can enjoy substantial returns when the large discount between the current market valuation and reserve position start to diminish. Having considered all the facts and potential factors our view is that once the company is able to start generating revenue and cash flow and commercialize its oilfields and gas wells, wider investor recognition can result in a narrowing discount. Recent statistics showed large more established energy peers, being valued by the market in a range of 0.82x to 1.22x of proven reserves net of debt & cash. For QOIL we conclude proven reserves are **conservatively valued at \$61 million** currently given data provided. When compared to its market capitalization of \$27.9 million we arrive at a substantial discount in the region of 55% to reserves.

**Using a going concern assumption for the company and expecting revenue and cashflows to be generated in the coming months and more progress be made to confirm additional proven reserves amongst other factors, we are of the opinion that the discount can narrow to under 30% from 55% currently, over a 12 month investment horizon. Under these assumptions we initiate coverage on QOIL with a SPECULATIVE BUY rating.** *Risk to our recommendation and target not being achieved include amongst other things a substantial downside correction in energy prices, particularly in oil and natural gas NYMEX futures, inability of company to bring subsurface hydrocarbon reserves on-stream (production issues), delays in projects due to rig availability or unforeseen technical problems. Also, any inability to obtain necessary financing from capital markets when needed to continue its business projects and/or major share dilution if further shares be issued to extinguish debt are additional factors that will counteract the benefit of a narrowing discount. We would caution that given the size of the company and risks involved, overall we advise positions be limited to under 3% of the client's total portfolio size.*

*See Appendix A-1 for Analyst Certification and Important Disclosures.*

## TERMINOLOGY

**Acre** - A measure of land 43,560 square feet. The primary measurement of land on oil and gas leases.

**Shut in** - to close valves on a well so that it stops production, or a well on which the valves have been closed.

**Royalty** - a percentage interest in the value of production from a lease that is retained and paid to the mineral rights owner.

**Barrel** - a unit of measure for oil and petroleum products that is equivalent to 42 U.S. gallons.

**British Thermal Unit (Btu)** - A measure of the heat value of a fuel. One Btu is the amount of heat required to raise the temperature of one pound of water one degree Fahrenheit.

**Blowout** - An uncontrolled flow of oil, gas, water or mud from a wellbore caused when drilling activity penetrates a rock layer with natural pressures greater than the drilling mud in the borehole.

**Casing** - metal pipe inserted into a wellbore and cemented in place to protect both subsurface formations (such as groundwater) and the wellbore. A surface casing is set first to protect groundwater. The production casing is the last one set. The production tubing (through which hydrocarbons flow to the surface) will be suspended inside the production casing.

**Plug** - A permanent plug, usually either cast iron or cement, set in a borehole to block the flow of fluids to isolate sections of the well or to permanently plug a dry hole or depleted well.

**AFE** - The estimated costs for drilling and completing a proposed well. It is prepared by a lease operator and sent to each nonoperator with a working interest for approval before work is undertaken. Normally used in connection with well-drilling operations.

**Horizontal Drilling** - A drilling technique used in certain formations where a well is drilled vertically to a certain depth and then drilled at a right angle within a specified interval. Horizontal drilling is widely used in the Austin Chalk formation in South Central Texas.

**MCF (mcf)** - One thousand cubic feet.

**MMBtu** - One million (1,000,000) British thermal units.

**Reservoir** - A porous and permeable formation containing significant quantities of hydrocarbons. A reservoir is characterized by a single natural pressure system.

**Shut-In Well** - A well which is producing or capable of producing but is not produced. Reasons for wells being shut in may be lack of a pipeline, lack of a market, etc.

**Sour Crude** - Crude oil contaminated by sulphur compounds, typically hydrogen sulfide. Sour crude has sulphur content above 1%.

**Sweet Crude** - Crude oil not contaminated by sulphur in excess of 1%.

**Workover** - The performance of one or more of a variety of remedial operations on a producing oilwell to try to increase production. Examples of workover jobs are deepening, plugging back, pulling resetting liners, and squeeze cementing.

**Zone** - A layer of rock which has distinct characteristics that differ from nearby rock.

**MMscf** - Abbreviation for million standard cubic feet, a common measure for volume of gas. Standard conditions are normally set at 60°F and 14.7 psia.

**Mscf/d** - Abbreviation for a thousand standard cubic feet per day, a common measure for volume of gas. Standard conditions are normally set at 60°F and 14.7 psia.

**PV-10 Value** - The estimated future net revenues to be generated from the production of proved reserves discounted to present value using an annual discount rate of 10%. These amounts are calculated net of estimated production costs and future development costs, using prices and costs in effect as of a certain date, without escalation and without giving effect to non-property related expenses, such as general and administrative expenses, debt service, future income tax expense, or depreciation, depletion, and amortization.



I Michael Grobler, CFA who upon request wrote this report, certify that the view expressed in this research report accurately reflects my personal view about the subject company. I also certify that I do not own or have any beneficial interest in shares of the covered company that no part of the compensation was, is or will be directly or indirectly related to the specific recommendation or view expressed in this report. Based on the facts that were provided, the industry trends present and spot prices across the energy complex, it is my best opinion and reflection of what the company's rating and share appreciation potential could be in a year from now once research coverage is widely adopted. Investors are urged to consider this report as only a single factor in making their investment decision.

Michael Grobler CFA, is a Gas and Energy Analyst, which provides economic research on the gas and energy-products industry to over 50 clients in Canada, the United States, Europe and Asia.

Starting his career in finance, Mr. Grobler progressed through various banking positions, hedge-fund manager to research analyst. Michael is a CFA charter holder and a member of the Association of Investment Management & Research (AIMR), USA

#### EDUCATION

- 1999:** **Chartered Financial Analyst (CFA)**, CFA Institute, Charlottesville, VA  
**1994:** **Bachelor of Commerce (Math Stat & Economics)** Majors: Economics, Mathematical/Actuarial Statistics, Insurance Science, University of Pretoria, South Africa – *Cum Laude and Academic colors*  
(Subjects A to D of Institute of Actuaries)

#### PROFESSIONAL CERTIFICATIONS/ LICENSES

- 2005:** **Series 86 (NYSE/NASD Research Analyst Qualification – Analysis)** - New York, NY  
**2005:** **Series 87 (Research Analyst Qualification – Regulatory Administration & Best Practices)**  
**2004:** **Series 55 (NASD Equity Trader Limited Representative)** - New York, NY  
**2003:** **Series 7 (General Securities NYSE/NASD Registered Representative)** - New York, NY  
**2003:** **Series 63 (Uniform Securities Agent State Law)** - New York, NY  
**1998:** **JET Equity Trader (JSE Electronic Trading System)**, Johannesburg Stock Exchange, South Africa.  
**1998:** **Senior Certificate of Financial Markets (JSE Derivatives Exchange)**, South Africa.  
**1995:** **South African Institute of Stock Brokers Exams**, University of Witwatersrand, South Africa.

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