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ASX Release

QUEST TO JOINT VENTURE ON LARGE, DRILL READY ALBERTA OIL SANDS PROJECT

Highlights

Quest has signed a binding Terms Sheet with First Nations Exploration Company, Keyano Pimee Exploration Company Limited to farm-in to 82,290 acres of Cold Lake oil sands in Alberta, Canada.

- The Cold Lake region is contributing an estimated 500,000 bopd and is one of three major oil sands deposits in Alberta. Alberta ranks first in crude oil reserves and production in Canada.
- Canada has the third largest oil reserves in the world totalling 173 billion barrels of oil of which 167 billion barrels are located in oil sands.
- The farm-in will proceed in the following phases:
 - **Phase 1:** Quest to fund four low cost vertical well re-entries to earn a 50% interest in the re-entry wells and four corresponding 640 acre sections of land. At the end of Phase 1, Quest will hold 1,280 net acres of the Project Lands along with its interests in the four wells and the associated production;
 - **Phase 2:** Quest to fund the drilling of thirteen conventional shallow vertical wells to earn a 50% interest in those wells and thirteen corresponding 640 acre sections of land. At the end of Phase 2, Quest will hold a total of 5,440 net acres of the Project Lands along with its interests in the seventeen cumulative wells and the associated production; and
 - **Phase 3:** Quest and KPECL to jointly (50:50) fund a multi horizontal-well production development programme over the entire Project area and Quest will earn a 50% interest in each well and corresponding sections of land with the objective of Quest holding a maximum position of approximately 41,000 net acres of the project area by production.
- Term sheet includes the further joint acquisition of opportunities in defined Area of Mutual Interest.
- Exclusive arrangement with KPECL to jointly manage development and production of oil on Cree First Nations Lands.
- The existence of oil has been verified by previous drilling and extensive log analysis from numerous historic and producing gas wells. Targets include crude oil in shallow horizons with an average depth of approx. 600 metres.
- Quest to manage Phase 1 & 2 operations with an established local technical team with a joint board of management to be established for phase 3 under the JOA.
- Cold Lake recovery economics demonstrate viability at current oil price and the likelihood of a speedy, low-cost pathway to production revenues for Quest and KPECL.

Summary

Quest Petroleum NL (ASX:Quest), is pleased to announce that it has executed a binding Terms Sheet with Keyano Pimee Exploration Company Limited (**KPECL**) for a phased farm-in to develop 82,290 acres of highly prospective acreage with verified oil shows located in the prolifically endowed Cold Lake oil sands region of Alberta, Canada (**Project**).

The Project presents Quest with an exclusive opportunity to partner a Cree First Nations oil exploration and gas production company holding a large scale, multi target, drill-ready land position in a significant oil and gas producing location in Canada's first ranking oil production province. Given that the oil and gas rights are owned by the First Nations people who in turn own KPECL, approvals and consents for the proposed activities are assured including access to significant infrastructure across the Project Area. In addition, as KPECL controls the Project area and mineral rights, the proposed partnership arrangement will not be subject to short term lease constraints and pressures that are normally associated with North American onshore oil & gas exploration and development projects, allowing the parties to focus on a long term mutually beneficial partnership.

KPECL is a company owned by the indigenous Saddle Lake and the Whitefish Lake Cree Nations and is currently involved in long standing gas production in the Cold Lake region, 200 kilometres north-east of Edmonton in Alberta, Canada. The KPECL lands are currently producing approximately 2mmcf of gas per day from 23 existing wells. KPECL has an 82,290 acre land holding (with the associated ownership of the underlying minerals) under its control and plans to transition from a gas royalty company to an active oil producer through the proposed joint arrangement with Quest.

In Phase 1, Quest has committed to an initial four well re-entry programme in areas where oil occurrences have been encountered during gas production activities on the KPECL lands. The combined all-in cost of these four re-entries is estimated at \$700,000. On successful completion of the Phase 1 programme, Quest will earn a 50% interest in the four wells and four corresponding 640 acre sections of Project land and the right to proceed with Phase 2 of the farm-in.

Phase 2 involves Quest funding thirteen low cost (estimated to be \$600,000 each) vertical conventional wells or additional re-entries to test oil occurrences across thirteen separate 640 acre Project sections, earning the Company a 50% interest in the wells and the thirteen corresponding sections of land as well as the right to proceed to Phase 3 of the Project.

Quest is also entitled to recover all of its Phase 1 and 2 costs from 80% of the production revenue.

Phase 3 consists of drilling vertical and horizontal wells on a 50:50 working interest basis with KPECL across the remaining Project area. During Phase 3, KPECL and Quest will jointly fund an ongoing programme where each successful vertical well will serve as the pad for the drilling of up to twelve horizontal production wells per section to recover oil from various oil sand horizon(s) using the in-situ cold oil production with sand (**CHOPS**) method.

CHOPS is a technique for extracting heavier crude oil where sand is used as a means enhancing the productivity of the oil well. CHOPS is now used as a "quasi primary" production approach in unconsolidated sandstones. As early as 2002 Energy Alberta claimed that there were thousands of wells in Canada that were stably producing oil through CHOPS.

The Cold Lake region is contributing (by various in-situ methods) an estimated 500,000 bpd to Alberta oil production and it is estimated that this number could rise to 650,000 bpd by 2017 (Oil Sand Community Alliance).

KPECL Joint Venture Partner

KPECL was formed in 1998 and is owned jointly by the Cree First Nations groups of Saddle Lake and Whitefish Lake. Quest has been involved in extensive negotiations with KPECL over the past several months with a view to jointly developing the Project Lands, which are shown in Figures 1 and 2 below.

The Project Lands consist of 82,290 acres in the Cold Lake region of Alberta Canada and is a well-defined and a prolific oil production zone (Refer Figure 2).



Figure 1: Project Location

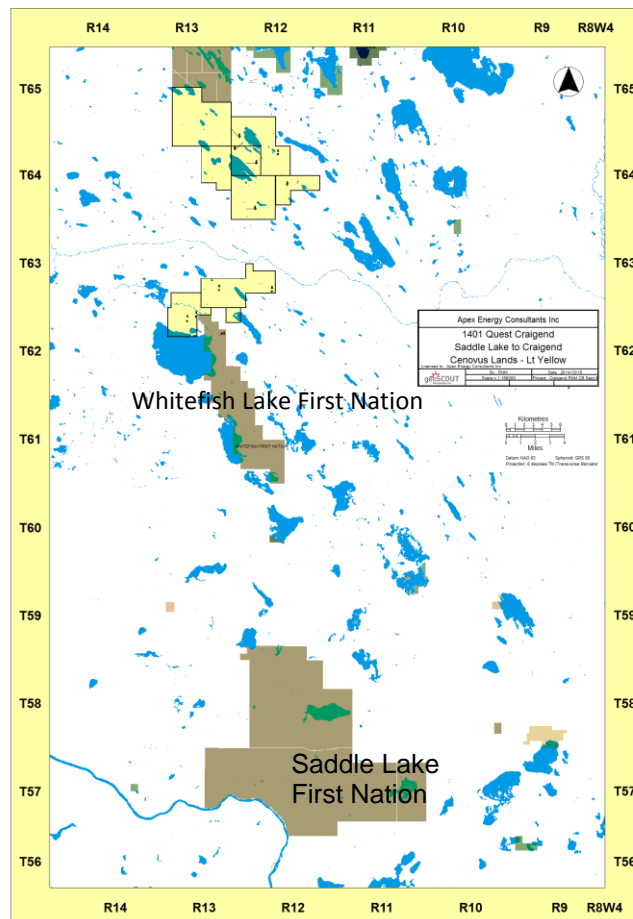


Figure 2 Regional Project Location Map

Project Execution and Work Programmes

Quest has recently appointed Alberta based Apex Energy Consultants (**Apex**) as its project adviser to the Quest Board and technical operations manager reporting to the Quest COO and assisting with Project execution and operatorship.

Apex is a petroleum engineering firm with specialist oil sands expertise. Apex will provide full geological, geophysical, engineering services, reservoir and evaluation engineering and day to day management of all technical operations at the Project.

On behalf of the Quest Board, Apex has completed extensive technical due diligence on the Project lands prior to Quest agreeing terms with KPECL. This work has involved the evaluation of over 1,000 gas production wells and associated data within or in close proximity to the Project area.

Apex has developed an extensive understanding of the sub-surface hydrocarbon systems and target horizons within the Project area and consider it to be highly prospective for economically viable quantities of oil.

Apex has overseen the process of selecting the four re-entry wells for the Phase 1 programme and is preparing for mobilisation on execution of the Joint Operating Agreement (**JOA**).

Apex will be responsible for the overall project development through Phases 2 and 3. The Phase 2 sections have been identified and the drill locations for the thirteen vertical wells have been generated.

The planned work programmes, dependent on the success of the preceding phase, will be staged as follows:

Phase 1

- Quest re-enters four historic gas wells that had oil shows and samples were recovered yielding 19 API oil
- Re-entry well costs estimated at \$183,000 per well (~\$700,000 for four well program)
- Quest carries 100% of upfront costs to earn 50% of the wells and corresponding 640 acre section with a 100% cost reimbursement from 80% of production revenue
- Re-entry program completion is estimated at six-eight weeks duration
- Quest will be the Operator
- On completion Quest will hold 1,280 net acres and the right to proceed to Phase 2 of the farm-in

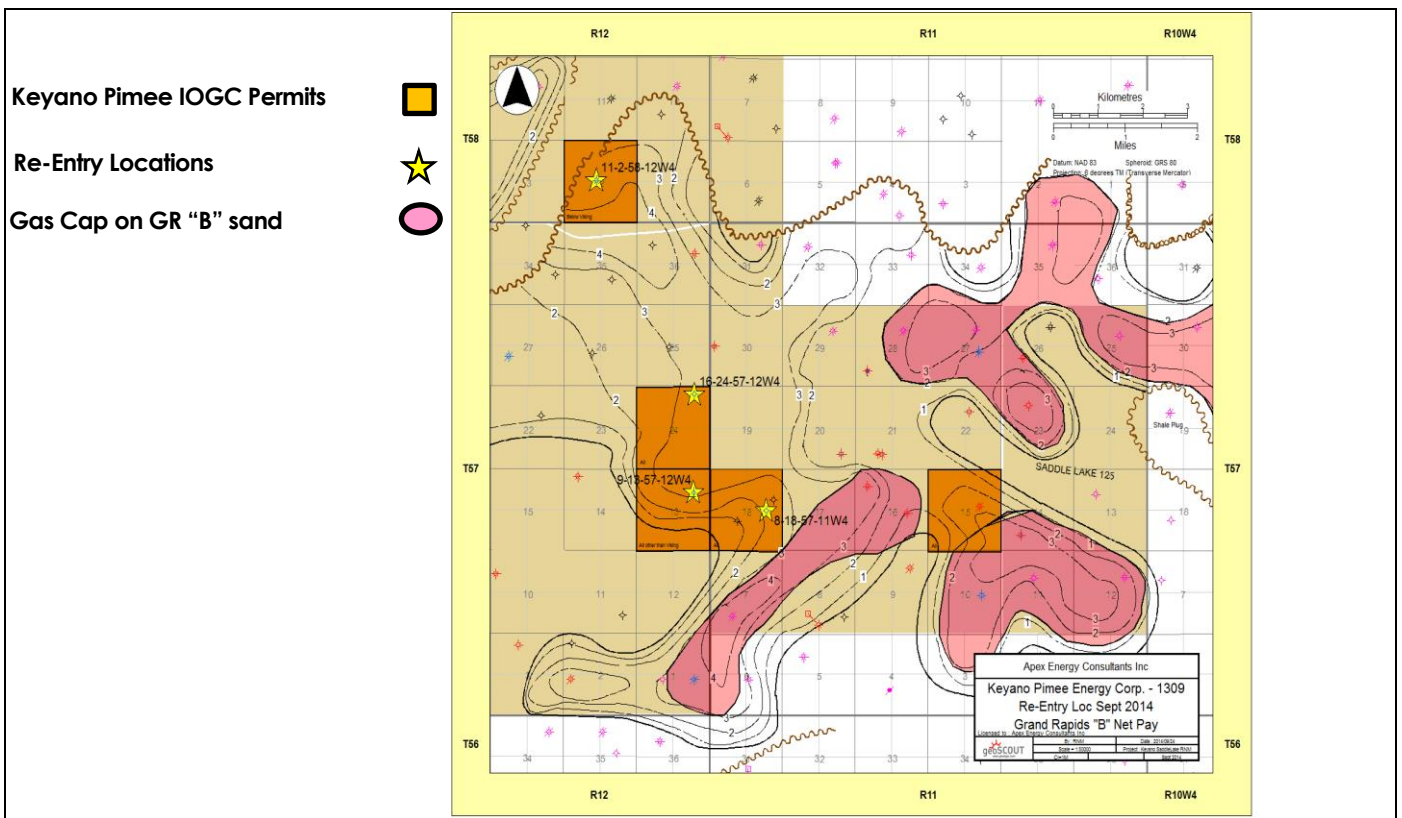
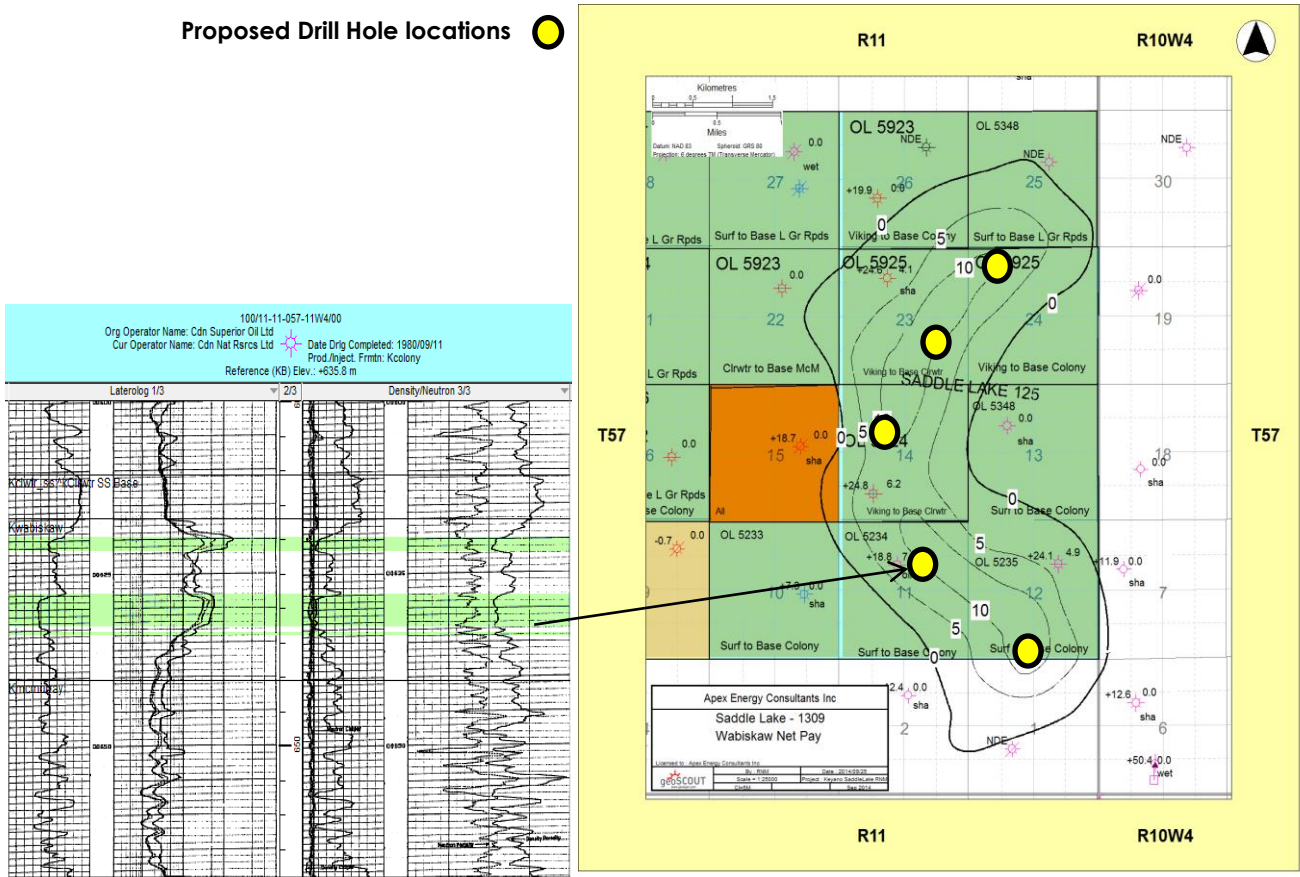


Figure 3: Initial re-entry well locations

Phase 2

- Quest will complete a thirteen conventional vertical well program
- Vertical well costs estimated at \$600,000 per well
- Quest carries 100% of up-front costs to earn 50% of each well and corresponding 640 acre sections with a 100% cost recovery from 80% of production revenue
- Quest will be the Operator
- On completion, Quest will hold a cumulative total of 5,440 net acres and the right to proceed to Phase 3 of the farm-in



Phase 3

- Joint funding by KPECL and Quest on vertical and horizontal wells across the balance of KPECL Project Lands
- Vertical well program with 20 acre spacing
- Multiple horizontal wells from pad
- Quest will be Operator
- On completion, Quest will be able to hold up to approximately 41,000 net acres

Quest and KPECL plan further acquisition of prospective properties in an area of mutual interest surrounding their current properties that will create a further pathway for management to develop Quest as a mid-tier North American oil producer.

Quest Managing Director Anthony Milewski said "We are pleased to partner with KPECL and the Cree First Nations people in the development of this extensive near term production opportunity in this highly prospective location. We see this as the first step in a significant production orientated focus for the Company in both Alberta and the prolific Cold Lake region and a long term partnership with KPECL".

About the Alberta Oil Sands Industry

Alberta ranks first in crude oil reserves and production in Canada. Canada has the second largest oil reserves in the world totalling 173 billion barrels of oil, 167 billion barrels are located in the oil sands. In the November 2,

2014 BMO Capital Markets publication, Oil Sands Economics: Facts and Fiction, stated "In 2014, average reported cash costs are \$24.33/bbl for in-situ production..." and gave Oil & Gas: E&P-Canada an industry rating: Outperform.

Total investment by companies such as Baytex, CNRL, Devon, Husky International and others in new Alberta oil sands projects and re-investment (sustaining capital) in existing oil sands projects now exceeds C\$514 billion (2013). Revenues from all existing and new projects now exceeds C\$2,484 billion (2013). Oil sands-related investment is expected to generate C\$79.4 billion, on an inflation-adjusted basis, in federal and provincial government revenues between 2012 and 2035.

Other well-established players in the region are gearing up for a new round of expansion in the region. Imperial Oil, a long-time participant in the Cold Lake area, expects to start producing 40,000 barrels per day from its Nabiya Project in the near future. Cenovus Energy Inc. is set to expand its Foster Creek project near Bonneville and Cold Lake by 90,000 barrels per day by the end of 2016.

Yours Sincerely

Anthony Milewski
Managing Director

For and on behalf of the Board

The Company is in the process of producing a detailed presentation on this exciting opportunity and this will be lodged with the ASX and on the Company website in the near future.

For any further information please see http://en.wikipedia.org/wiki/Athabasca_oil_sands or contact the Company on +618 9380 9920 or by email info@qpnl.com.au