UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA
TAMPA DIVISION

SECURITIES AND EXCHANGE COMMISSION,
Plaintiff,
v.

Case No: 8:09-cv-87-T-26TBM

ARTHUR NADEL; SCOOP CAPITAL, LLC; and SCOOP MANAGEMENT, INC.,
Defendants,

SCOOP REAL ESTATE, L.P.; VALHALLA INVESTMENT PARTNERS, L.P.; VALHALLA MANAGEMENT, INC.; VICTORY IRA FUND, LTD.; VICTORY FUND, LTD.; VIKING IRA FUND, LLC; VIKING FUND, LLC; and VIKING MANAGEMENT, LLC,
Relief Defendants.
____/

RESPONSE TO RECEIVER'S INTERIM REPORT ON
QUEST ENERGY MANAGEMENT GROUP, INC.

This response on behalf of Paul Downey and Jeff Downey is filed in response to the Receiver's Interim Report on Quest Energy Mangagement Group, Inc. ("**Quest**") filed with this Court on August 28, 2013. The Downey's believe that the report contains numerous inaccuracies, misrepresentations and material omissions, that the report is self-serving in many respects, and that the report portrays an inacurate picture of Quest's business activities.

General Statements / Overview:

In response to allegations that Quest's financial and accounting records were in disarray, it is important to note that the Receiver has managed to discern, almost to the penny, how much money or compensation the Downeys have received during the existence of Quest. The Court ordered the Receiver to protect the assets of Quest. It is obvious from the actions and statements of the Receiver that he is attempting to justify his representations to the court and to justify seizure of Quest by misrepresenting the facts in a further attempt to vilify and defame the character of the Downeys.

Quest always has been a legitimate business enterprise, although it unknowingly received improper investment assets. The punitive measures taken by the Receiver against the owners of Quest that included, but were not limited to, terminating employment, confiscating the last pay period paychecks from the Downeys and other employees, cancellation of the corporate medical plans, in our view, have not been justified by the facts.

In our view, the decision by the Court to appoint the Receiver was based in part on inaccurate representations by the Receiver. Since appointment of the Receiver, responsibility for the day-to-day operations has been left to the field production supervisor who has no financial or business experience - he is required to call in to the Receiver's law firm in Tampa and has no direct supervision.

A clear indicator of the Receiver's competence is indicated by a request that the field staff explain the rate of return or ROI they should obtain from plugging a well. Common sense tells you that if you plug a well, there will be no return.

The Downeys have developed a reorganization plan that has been reviewed and endorsed by industry experts and various investors - under this plan, over a period of five years, Quests' existing investors and creditors will receive a return of potentially 100% of, and at least 50% of, their original investment. The plan, if implemented, is expected to pay the original settlement amount agreed to by the receiver of $2.3mm over the 5 year period. A draft of the letter of intent commitment from the investor group is attached as Exhibit A. Of course, why would the Court return the company to the Downeys if the allegations in the Receiver's report are accurate? As shown below, the Downeys have a different perspective from the Receiver with respect to allegations in the Receiver's report. The Receiver's assertions are in bold below. The responses to those allegations are in normal typeface following each assertion:

1) Page 2, Background: "Quest is one such entity that was funded in large part with scheme proceeds."

Quest was a Delaware Corporation established in 2005. Twenty-three investors originally invested $750,000 in Quest in 2005 for four oil and gas leases. Two months later, Christopher Moody and Neil Moody invested $3 million in Quest, representing 80% of Quest's early funding. While that may have been a meaningful number eight years ago, since that time, other independent investors have invested approximately $15 million in additional funds, making the total funds received from the Nadel Ponzi scheme less than 30% of the total amount of funds raised by Quest. Please reference Quest's 7 Year Business Plan which is attached to this response.

2) Page 3, Background: ". . . the Receiver attempted to reach a resolution with Quest relating to the large amount of scheme proceeds used to fund the Company"

This statement is false and misleading. Since the Receiver's appointment in 2009, Quest has complied with all requests for documentation - and would go for long periods of time without any communication from the Receiver at all. The statement that the Receiver attempted to reach a resolution is not complete. Quest initiated the discussion for a resolution/settlement in 2011 at a time when Quest had what it believed to be a firm commitment from a CPA in Naples, Florida to provide the additional development capital to resolve the Receivership issue and complete Quest's development plan.

3) Page 3, Background: "Quest failed to make this payment and *ignored the Receiver's repeated demands for payment.*" [Italics added]

Again this statement is not accurate. There were no "repeated demands" for payment. In fact, there were no demands for payment at all. The Settlement Agreement between the Receiver and Quest became null and void when the investment did not materialize, and consequently, Quest was not able to satisfy the payment schedule. Please refer to attached Settlement Agreement. Nevertheless, Quest paid more than $545,000 in payments to the Receiver.

4) Page 4, Section I: "...(2) Quest had serious regulatory issues...":

Quest has always taken the rules and regulations of the Texas Railroad Commission (the **"RRC"**) very seriously. The Receiver's characterization of these particular issues as serious further demonstrates his lack of working knowledge and experience with the RRC. Had the Receiver researched these issues further, he would have found that the fines he is referring to here are due to violations from the previous operator of this lease. As such, Quest had worked with the RRC to allow extra time to sort out the issue and resolve it to the satisfaction of the RRC. Had the Receiver not taken over Quest, this would not have been an issue at all.

5) Page 4, Section I: ". . .(3) Quest was sustained exclusively by money from new investors who were misled about the company's financial state or potential; . . ."

The production income records which are in the possession of the Receiver would confirm revenue from the sale of oil and gas of over $4 million over the seven years that Quest has been in existence. This information is available to the Receiver, since he seized all of Quest's records including the financial and accounting records.

Further, the statement that investors were misled about Quest's financial state or potential is also false and misleading. Investors were not solicited based on any representation of the net operating profits of Quest; rather they were solicited based on the upside development potential of the Oil and Gas leases. This upside potential was based in large part on independent, third party reviews of geological, technical, engineering and historical production records. In fact the Receiver has had in his possession, since the first subpoena was issued, an engineering report that substantiates that there are more than ten million barrels of crude oil remaining in place on the MCU property, of which a minimum of 1.6 million barrels + 2.3 BCF of gas can be recovered by implementing a standard water flood on the lease.

This is one of many examples of how the Receiver, since his first receipt of documents from Quest in 2009, has selectively chosen which information to release to the Court, and which information to ignore. In our view, this is the same as withholding potentially exculpatory evidence. We believe the Receiver has been deliberately misleading the court by preparing and signing affidavits which were not accurate in order to influence the Court.

6) Page 4, Section A: ". . .Wheeler, Fairman and Kelley CPA's, experienced forensic accountants in Texas *familiar with the oil and gas industry. . .*" [Italics added]

Wheeler, Fairman & Kelley are forensic accountants. As they readily admit, and as their website attests, they have no real oil and gas experience. When they were first retained by the Receiver, the Downeys spoke to them and researched their background. The firm had no working knowledge of how the industry works and was not familiar with the accounting system Quest used—Wolfepak--which is one of the most popular/common systems in the oil and gas industry. From the statements in their report, it is clear to anyone with experience in oil and gas that they do not know how the industry works.

7) Page 5, Section C "Upon review, the Receiver discovered that Quest's financial records were in disarray. Despite this challenge, Wheeler has been able to determine that Quest was insolvent almost since its inception in 2006. . ."

Quest originally used the services of a local CPA firm in Albany, TX and relied on that firm to handle the books. Quest was led to believe that they had extensive experience in Oil and Gas, but they had not handled an oil and gas operator for several years. When Quest had problems getting accurate reports from them, we made the decision to bring the accounting in-house. After bringing it in-house, it became apparent that there were major problems with the entries from the beginning. Quest spent over a year and tens of thousands of dollars trying to fix the problems. Quest hired a new accounting firm with extensive oil and gas experience as well as a consultant to sort everything out - and while they were able to correct most issues, Quest still ran into errors from time to time.

Quest was a start-up oil and gas company. The company bought properties with little to no production with the intent of restoring and increasing production. This is a capital intensive business (and anyone with any oil and gas experience would be aware of that). Several months are required to repair and restore production. Startup companies generally take time - frequently it takes years - to generate positive cash flow.

The allegations that the financial records were in disarray is more likely a function of the lack of business experience of the Receiver and the inexperience of the so-called forensic accounting firm. The records were obviously in good enough order for the Receiver to take advantage of a $900,000.00 tax refund, after their seizure of Viking Oil and Gas and other Moody assets, based on accounting records provided from Quest.

Additionally, Quest's corporate tax returns have always been prepared by independent, third party CPA firms, and none of them have ever had difficulty preparing a complete return based on Quest's financial and accounting records.

Please refer to Quest's Business Plan attached hereto to further explain Quest's corporate goals and timelines.

9) Page 5-6, Section C "Further, Quest's minimal income was insufficient to satisfy its operating expenses, let alone its debt obligations. As a result, there was no potential for the Downey's to satisfy Quest's obligations other than by using money received from new investors to pay existing investors."

Once again the Receiver chooses to ignore the facts stated in the drilling and development plans presented to investors, which are all in the Receivers possession. The facts of record in the development plan include: the original Business Plan, the specific development plans for each lease, the independent Engineering and Geologic evaluations of the development plans, and the documented representations made to all investors regarding the need for full capitalization of the broader drilling and development plans to ultimately make their investments successful. These facts have always been fully disclosed to investors and potential investors, including a third party Due Diligence report that evaluates the drilling and development of the leases as an investment (see attached FactRight report).

Investors have always been made aware that their investments could be used for General Corporate Purposes, which of course would include debt obligations. The issuance of new debt by corporations, both public and private is a common practice. As the accounting records clearly show, the operating cash flow of Quest has fluctuated, and the Receiver's representation includes only the most recent review of cash flows, which Quest disclosed to them. Further, the Receiver's representation that they have been able to triple production was a result of the Receiver implementing a plan developed by the Downeys and funded by Denny Smith's $350,000 investment. It should be noted that the production levels the Receiver is touting have not been sustained for any significant amount of time, while the average production level under the Downeys' management was almost twice the level the Receiver is claiming.

Furthermore, in response to the Receiver's continued allegations of the insolvency of Quest, the financial difficulties of Quest were greatly exacerbated in large part due to the Receiver's nonpayment of the approximately $4.8 million dollars in operating costs that is owed to Quest by Viking Oil & Gas. That necessitated Quest raising that nearly $5,000,000 to pay the additional operating costs. The Receiver was able to take advantage of the $900,000 tax refund from that investment.

10) Page 6, Section D: bullet point, "Due to the Downey's failure to comply with regulatory requirements prior to the Receiver's appointment, the renewal of Quest's Operator's License had been denied by the Texas Railroad Commission (RRC);"

As for the regulatory issues - Quest had submitted the additional requirements requested from the RRC to renew the P-5 License. The response from the RRC was lost in the mail, so Quest was not aware that there were additional requirements - even though the RRC sends these notices certified, they frequently are lost. This has happened to Quest and many other operators many times. The RRC has several new rules that apply to operators and that has caused many operators to have issues with their P-5 license renewal. Had the Receiver not taken over, Quest is confident that those problems would have been resolved months ago.

And further, the Receiver has refused to take the Downey's off of the P-5 Licnese. While the Receiver has blocked the Downeys from having anything to do with Quest and the leases, the Downeys remain personally liable for them.

11) Page 6, Section D: bullet point, "Additional prior regulatory violations by the Downey's had resulted in a significant fine of $75,625;"

This fine was related to a contract operator Quest was using to operate several leases in South Texas. This operator handled all of the RRC filings for those leases, and the fines were the result of his failure to resolve violations reported on those leases. In fact, the operator that caused the fines has reimbursed Quest for the fines.

12) Page 6, Section D: bullet point, "Quest's oil and gas wells were in disrepair and the Downey's failed to make even nominal efforts to maintain them as viable producing assets;"

This statement from the receiver further demonstrates the Receiver's lack of understanding of the industry. Due to the nature of the business, which includes dealing with corrosive fluids, wells will go down from time to time, and service units have to be brought in to repair pumps, holes in tubing, etc. Quest had a work plan developed to bring 20 wells back into service. Due to the higher oil prices, and a boom in this area, the service contractors are busy, and it now takes several weeks to obtain a rig in to perform repairs. Quest had been waiting on a rig for over a month when the Receiver took over. Quest informed the Receiver of that issue when he took over. Quest had been informed that a rig was finally available that week - however, the Receiver decided he didn't want to do that yet - so Quest passed on that opportunity. It took over a month for the Receiver to be able to get a rig in to do the repairs that he did - which were repairs that Quest had planned. In this instance, the Receiver's actions caused Quest to lose a month's revenue.

13) Page 6, Section D: bullet point, ". . .had few producing assets;"

In response to the repeated allegations of the Receiver regarding the insolvency and lack of value in Quest, it is stated repeatedly in Quest's business plan and development plans that the value lies in the assets once developed. Again, all of these documents are in the Receiver's possession and have been for some time.

14) **Page 6, Section D: bullet point, "Although the Downey's raised more than $19 million from investors, it appears no more than $1.5 million was ever used in connection with the purchase of oil and gas equipment;"**

This statement again demonstrates the incompetence and lack of experience of both the Receiver and of his allegedly expert Forensic Accounting firm. In 2009 Quest complied with the first subpoena from the Receiver, which means that all bank records for Quest, including 100% of the records of payments made by Quest to any party at any time in the existence of the company, have been in the Receiver's possession.

As the bank records show, and as is the normal course of business for an oil and gas operating company, Quest has made payments to: Geologists, Engineers, Drilling Contractors, Cement Companies, Logging Companies, Mud Companies, Wireline Companies, Service Rig Contractors, Tank Repair Companies, Roustabout Companies, Equipment Supply Companies, Welders, Dozer Companies, Attorneys, CPAs, and RRC Fees.

The Receiver's termination of Quest's outside accounting firm may allow him to continue to misrepresent Quest's financial records.

16) Page 6, Section D: bullet point "While the Receiver's motion to expand the Receivership to include Quest was pending, the Downey's solicited and received a $350,000 investment from an investor without disclosing to the investor the pending motion, that the Company was insolvent, or that the renewal of the Company's operational license had been denied. The Downey's then used a portion of those funds to hire an attorney for themselves and failed to apply those funds to resolve Quest's critical outstanding regulatory issues;"

At the time Quest received the loan from Denny Smith, the P-5 license had not been denied. It was a loan, not an equity investment. Further, Quest retained counsel originally for the company, not the Downeys. Quest believed it was in the best interests of Quest and its investors to fight the Receiver’s motion. Also, the investor was made aware of the potential problems Quest would face should the funding not be completed. Mr. Smith is an experienced investor with over 30 years experience in the oil and gas industry including spearheading the recapitalization and reorganization of Nabors Drilling.

17) Page 7, Section D: bullet point “The Downey's had failed for sometime to pay gas royalties owed by Quest on its gas sales. At the time of the Receiver's appointment over Quest, Quest owed approximately $42,000 in gas royalties and those payments had not been made since May 2012 on one property and October 2012 on another property;”

The royalties to be paid on the Hatchett lease were held up by the title opinion - Quest had just received the final version from the attorneys and had issued division orders so that the gas royalties could be paid up and had in fact prepared the books to run the revenue which is the process necessary to generate the royalty checks. The gas royalty checks for all leases were scheduled to be sent out the week that the Receiver took over.

18) Page 7, Section D: bullet point “The Downey's never made a material investment of their own funds into the Company. Yet they used company funds to pay personal expenses of approximately $918,506 for the Downey family which included car payments for a BMW, Chevy Tahoe, Chevy Yukon, and Lexus. The Company also paid Jeff Downey's rent and expenses associated with another residential property in a subdivision near Houston as well as substantial rents and personal expenses for a condominium Paul Downey was renting in Naples, Florida;”

The cars were company cars. Jeff Downey never had a house in Houston - that was Paul and Sondra's. The rent was a loan that was deducted from the stock repurchase payments to Sondra Downey. The condo in Naples was rented because that is where Paul raised a majority of the capital and spent a majority of his time. These are all legitimate business expenses, not personal expenses.

19) Page 7, Section D: bullet point "In addition to the personal expenses noted above, at the time of the Receiver's appointment, The Downey's were receiving annual salaries in the combined amount of $352,000. Assuming they received this amount since the beginning of Quest's operation they would have received approximately $2,464,000 in addition to the personal expenses of $918,506 noted above for a total of approximately $3,382,506;"

The Receiver has control of all the accounting files and records of Quest - they should not have to assume anything. Had they bothered to check, he would know that the Downey's salaries were not that amount from the beginning. Beginning salaries totaled $244,000 and did not increase until Quest had hit production benchmarks. Further, the "personal expenses" were not personal. They were legitimate business expenses as explained above.

19) Page 7, Section D: bullet point "In 2010, the Downey family caused Quest to issue a series of notes payable to themselves in the amount of $10,000,000 in exchange for shares of family member stock. Quest was insolvent at that time. The transaction was reversed but before reversal Jamie Downey and Sandy Downey were paid a total of $117,000 for no justifiable reason.

These moves were in anticipation of the Naples CPA firm following through on its commitment to fund the development plan of approximately $40mm. It is common practice for a family owned business to transfer stock to family members when the value will have minimal tax impact, and then to have the company re-purchase the stock when revenues and profits increase. As Quest expected to be able to execute the development plan with the commitment from the Naples CPA, Quests' attorney recommended this course of action.

20) Page 7, Section D: "As is evident from the above, without the appointment of the Receiver, the collapse of Quest was inevitable."

Much of the so-called evidence presented by the Receiver has been shown to be misleading at best and false at worst. The appointment of the Receiver may have been based to some degree on these misrepresentations. His lack of experience and knowledge of the oil and gas industry has also been clearly demonstrated. Therefore, any projection he could make about the collapse of Quest is simply another misrepresentation. The only certainty is that the collapse of Quest with the Receiver in charge is guaranteed.

21 - 23) Pages 7-9, Section E: RRC Issues:

Quest had resolved the issues that it had been made aware of and had filed the corrected paperwork. However, Quest never received the follow-up notice from the RRC. Had that been received, Quest would have promptly resolved any remaining issues and complied with the RRC notice. To imply that Quest ignored notices from the RRC is just another attempt by the Receiver to demonize the Downeys. Quest took the RRC very seriously and promptly responded to all correspondence Quest received from them.

It should also be noted that the Receiver asked employees to assume the Receiver's personal liability of over $790,000 by asking them to sign the P-5 operating permit without disclosing the liability they would be assuming.

24) Page 9, Section F: "The Downey's failed to disclose to investors that Quest was insolvent and did not have the financial means needed to maintain the wells, produce the amount of oil and gas represented to investors, and resolve its regulatory issues."

As mentioned above, the investors were aware that the purpose of their investments was to develop the assets. They were not investing in Quest or the existing production, but the upside once the leases were developed.

25) Page 9, Section F: "In Status Update Memoranda, Paul Downey represented to investors that a Fortune 100 Company was interested in purchasing Quest's assets which purportedly would have allowed Quest to repurchase all notes at full face value...This never came to pass and the Receiver has been unable to find any evidence of any Fortune 100 company interested in purchasing Quest's assets. . ."

This allegation is a continuation of the Receiver's selective use of information to continue to mislead the court in order to justify the seizure of Quest. The company referenced in the Status Update Memoranda was GE Energy Financial Services (GE-EFS) and GE Capital. The Receiver has email records which confirm this. Quest had multiple meetings at GE's offices in Houston, including a business lunch with the Managing Director of GE Energy Financial Services and key members of the Quest technical team and several key Quest investors. GE-EFS had been provided with the complete data package, which is referenced in the Status Update Memorandum dated Oct. 16, 2012, in the Receiver's Exhibit D. Also at the request of the Managing Director of GE-EFS, Quest prepared a 30 year forecast and review of the projected Oil and Gas reserves and recovery rates from the three Quest leases, which is also in the Receiver's possession.

26) Page 10, Section F, PP beginning: "Most recently, the Downey's secured an investment from an individual investor after the Receiver had filed his motion to expand the receivership to include Quest. . ."

The $350,000 loan made by the investor was secured by an assignment of the Hatchett Ranch Lease, which has been recorded in the Callahan County courthouse. The Receiver has attempted through threats and intimidation to force the investor to surrender the lease. The Downeys believe the investor has the full right to the working interest assignment.

27) Page 12, Section A: "The receiver has determined that Quest maintains leases on three fields which in turn contain 88 gas and oil wells. Of these 88 wells, only 5 wells are currently producing. . ."

The Receiver clearly does not understand the industry. Out of these wells, at least 12 are water injection wells, and one is a water supply well. Further, the majority of these wells are at least 30 years old (some are over 80 years old) and most of these are no longer capable of producing hydrocarbons. As mentioned above, it is the nature of this industry that wells go down and will require periodic workovers to bring them back into production. Quest had developed a workover plan to bring the productive wells back into production and was preparing to execute the first portion of that plan when the Receiver took over. This is the plan which the Receiver used to increase production.

28) Page 13, Section A: "From the Receiver's review of the wells, it was evident that simple maintenance and basic well management had been ignored for some time. The Receiver has already more than tripled production by reinvesting a nominal amount of money in these wells. . ."

As mentioned above, these comments demonstrate the Receiver's lack of understanding of the industry. It is typical for wells to need repairs on a regular basis, and as mentioned, Quest was waiting for a service rig to fix several wells. Quest had developed a detailed workover plan which, if fully implemented, would have increased production to over 100 barrels/day. The Receiver has implemented a small part of the plan using funds received from Dennis Smith. Further, the Downeys believe the Receiver's assertion that the costs were nominal are misleading, especially given that he is in possession of all the bills incurred for the workovers completed, including the allocated of overhead and supervision. Therefore, the Receiver should be able to provide the Court with an exact cost of these workovers. It is standard practice and procedure, which Quest has followed, to develop AFE's for all workovers, provide projected production/revenue returns from the workovers, and to analyze the results/actual costs to the budget. The Receiver has partially followed the plan developed by the Downeys for certain well workovers. The Receiver's failure to complete the plans will result in a short term loss of any production gains.

29) Page 14, Section D, III: "As a result of the Receiver's preliminary investigation, it appears that the oil well leases held by the company have potential value and may be able to be sold for the benefit of investors and other creditors. . ."

This statement by the Receiver is contrary to the published reports to the Court previously made by the Receiver, as well as statements in the August 26th, 2013 report that there is no potential value in Quest. It also reflects the Receiver's total lack of competence and understanding of the Oil and Gas industry. In addition, the Receiver is aware since their seizure of Quest, and as a result of the seizure, the Receiver is unable, at this time, to sell the MCU or The Hatchett Ranch leases. It is also likely that some of the Brown County leaseholders will take action that will further restrict the Receiver's ability to sell some of the Kilgore Ranch leases. The Receiver's failure to disclose this to the Court is another example of his selective use of information.

30) Page 15, Section D, III: "The Receiver, however, currently believes that the assets and potential value of Quest is significantly less than the outstanding balance of investor's investment amount in Quest.

As referenced repeatedly above, the value of Quest can only be realized by developing the leases. As noted in the Stephens Engineering report on the MCU, by developing the lease, and installing the waterflood, Quest would be able to produce 1.6mm BBL of oil and 2.3BCF of gas - which would net Quest $67mm - and this is based on commodity prices much lower than current prices. Stephens Engineering is a well respected expert on waterfloods and secondary recovery. This report has been in the possession of the Receiver since 2009. This is yet another example of the Receiver deliberately misleading the court - that in spite of the data in their possession, he continually reported to the Court since inception that he does not believe Quest has any value, and he does not expect to recover any funds from Quest. The capital required to execute the waterflood plan was not available because of the continued burden of the Receiver.

The only viable solution whereby the investors in Quest do not lose their entire investments is for the court to immediately terminate the Receiver's possession of Quest, return it to prior management, and approve the reorganization plan proposed by the Downeys.

BUSINESS PLAN
2007 – 2012

QUEST ENERGY MANAGEMENT GROUP, INC.
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ALBANY, TEXAS. 76430
(325) 762-3281 (OFFICE)
(325) 762-3284 (FAX)
JEFF.DOWNEY@QUESTEMG.COM

Copy ___________

Confidentiality Agreement

The undersigned reader acknowledges that the information provided by _______________ in this business plan is confidential; therefore, reader agrees not to disclose it without the express written permission of _______________.

It is acknowledged by reader that information to be furnished in this business plan is in all respects confidential in nature, other than information which is in the public domain through other means and that any disclosure or use of same by reader, may cause serious harm or damage to _______________.

Upon request, this document is to be immediately returned to _______________.

____

Signature

____

Name (typed or printed)

____

Date

This is a business plan. It does not imply an offering of securities.

Information Memorandum

Disclaimer

As a precondition to Quest authorizing the Recipient to review this Memorandum, the Recipient acknowledges and agrees with the following: (1) Quest expressly disclaims any and all liability and responsibility for the quality, accuracy, completeness and materiality of this Memorandum; (2) the Recipient will conduct its own independent evaluation and analysis of the Investment and satisfy itself as to the quality, accuracy, completeness and materiality of this Memorandum; and (3) the Recipient will rely solely on its own independent evaluation and analysis of the Investment when deciding whether or not to submit a proposal or enter into a definitive investment agreement. The Recipient further acknowledges and agrees that only the express representations and warranties contained in a definitive investment agreement (when and if the same is executed) shall be binding on the parties. If the Recipient determines that it cannot (or is unwilling to) comply with the foregoing preconditions to the disclosure of this Memorandum, it should immediately notify Quest in writing, discontinue its review and return this Memorandum.

In furnishing this Memorandum, Quest, and their respective affiliates, officers, directors and employees do not undertake any obligation to provide the Recipient with access to any additional information. This Memorandum does not constitute an investment offering in any jurisdiction in which such offer or solicitation would be unlawful.

Forward-Looking Statements

In general, all statements contained in this Memorandum that are not historical in nature are forward-looking. Forward-looking statements are included, for example, in discussions regarding: financial performance and operating results, reserve projections and the Reserve Report, operational and legal risks, and the effects of governmental regulations and legal proceedings. While forward-looking statements are based upon management's estimates of fair values and future costs, using currently available information, such statements are subject to risk and uncertainty, many of which are beyond the Company's control. As a result, actual results or performance may differ materially from anticipated results or performance. Quest expressly disclaims any obligation to update any forward-looking statements contained in this Memorandum, whether as a result of new information, future events or otherwise. For all of these reasons, the Recipient is cautioned not to place undue reliance on any forward-looking statements included in this Memorandum.

Miscellaneous

Numbers in tables may not sum due to rounding.

Table of Contents

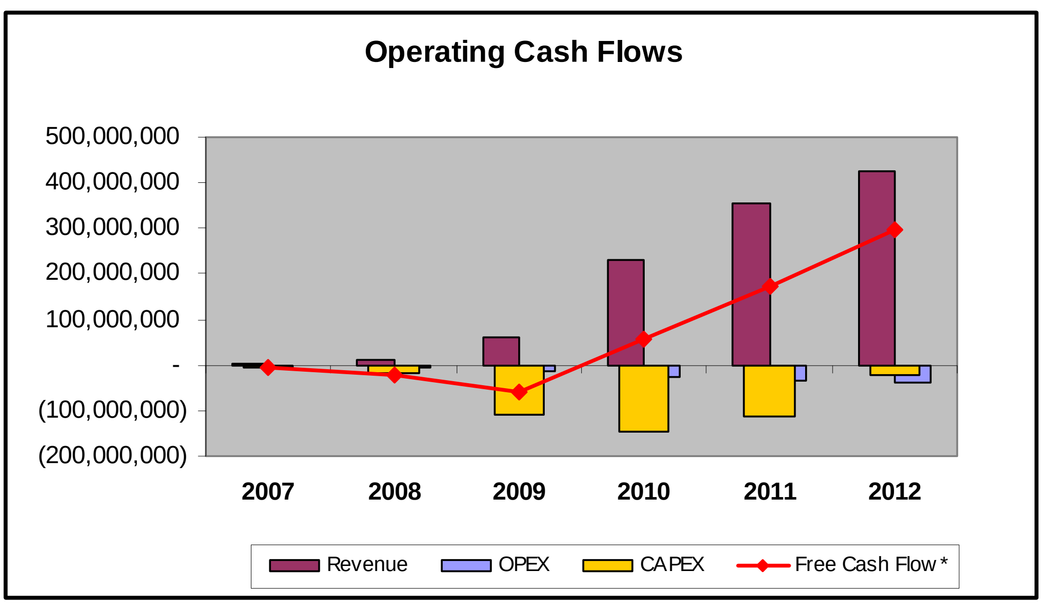
1. Executive Summary

Quest Energy Management Group, Inc. (hereinafter referred to as “Quest”) has a strong management team with over 400 years of industry experience and relationships with the vision and discipline to become one of the larger independent oil and gas producers in the Permian Basin by Q4-2012. Quest will focus on developing and upgrading existing properties and new acquisitions with upside potential for water flooding and Enhanced Oil Recovery (EOR) potential to achieve Quest’s production goal of 25,000-35,000 BOED by Q4-2012. This business plan supports achievement of Quest’s five year goal in three phases. The results of this plan are projected yield of 84% IRR over the next six years with almost $300MM in free (and escalating) annual cash-flow by end of 2013. After the six year expansion, Quest will target introducing its IPO with an expected market capitalization of $6.2B-$8.7B.

Quest believes it can achieve these favorable financial results due to the following various factors: Increasing local and global demand for oil and gas, plentiful recoverable reserves with upside potential to produce much needed supply, increased access to proven recoverable reserves due to significantly greater divestiture activity with private sellers and private equity firms, and projected commodity price levels that yield significant economic benefits from profitable investment opportunities to extract oil and gas from properties with upside potential.

Quest will achieve its initial operational break-even goal of 200 BOED by Q1-2008. The next production milestone is 500-1,000 BOED by Q3-2008. This will require an additional $5MM in capital investment which will be obtained through a combination of corporate debt financing, 1031 Exchanges, and/or private Master Limited Partnerships (MLP). Quest is on track to achieve this milestone and is currently planning for the second expansion, 2,500-3,500 BOED by Q3-2009. This will require an additional $60MM in capital investment which will enable an increase in annual cash-flow to approximately $57MM by end of 2010. Over the six year life of Quest’s expansion plan, it is expected that approximately $611MM in capital (which includes approximately $200MM from reinvested capital and $350MM-$400MM from investors/lenders) will be required to achieve production and financial goals by 2012. As noted above, these investments are projected to yield an 84% IRR over the next six years, with almost $300MM in free annual cash-flow by end of 2013, positioning Quest to introduce its IPO with an expected market capitalization of $6.2B-$8.7B.

Quest plans to raise investment capital through corporate debt financing, 1031 Real Estate Exchanges, and/or private MLPs for all its expansion phases. This will present flexible and favorable investment opportunities that provide periodic distributions, solid unit-holder value increases, tax shelters through the MLP as well as provide additional tax shelter opportunities on investment transactions through 1031 Real Estate Exchanges.



1.1. Objectives

1. Increase oil and gas production of existing leases to 500-1,000 BOED by Q3-2008.
2. Maximize oil and gas production on existing and new leases through water flooding and application of proven advanced technologies to achieve 2,500-3,500 BOED by Q3-2009.
3. Expand acquisition of water flood leases in the State of Texas with focus in the Permian Basin to achieve 25,000-35,000 BOED by Q4-2012.

1.2. Mission

Quest is an oil & gas exploration and production company with strong management and strategic partnerships that apply disciplined judgment on investment opportunities and proven advanced technologies to maximize oil and gas production capabilities in the State of Texas with a focus in the Permian Basin.

Quest is also committed to becoming a contributing member of the community and industry it serves by providing employment opportunities and supporting its community and industry's social and economic needs.

Quest's vision is to become one of the larger independent oil and gas producers in the Permian Basin by Q4-2012, and ultimately be positioned to introduce its IPO with an expected market capitalization of $6.2B-$8.7B by 2013.

1.3. Keys to Success

1. Achieve the following oil & gas production milestones:
   - Phase 1 - 500-1,000 BOED by Q3-2008
   - Phase 2 - 2,500-3,500 BOED by Q3-2009
   - Phase 3 - 25,000-35,000 BOED by Q4-2012
2. Ensure overall production costs do not exceed $20 per BOED, including applicable inflationary adjustments.
3. Seek acquisitions with strong upside potential to enhance profitable oil and gas production through water flooding and Enhanced Oil Recovery (EOR).
4. Continue to use management's experience in a focused and disciplined manner

2. Company Summary

Quest is an oil & gas exploration and production company, headquartered in Albany, Texas, that was founded in November 2005 to acquire, operate and upgrade various oil and gas producing properties in Texas with a focus on the Permian Basin. Quest has a strong management team with over 400 years of industry experience and relationships. The management team and its strategic partnerships apply disciplined judgment on investment opportunities and proven advanced technologies to maximize oil and gas production capabilities in the region. Quest will achieve its five year goal of 25,000-35,000 BOED through a three phased expansion plan that develops and upgrades existing properties and new acquisitions with upside potential for water flooding Enhanced Oil Recovery (EOR) methods.

Since the company's formation in November 2005, Quest has acquired leases on 7,005 acres with proved recoverable reserves of 8,929,000 BBLs of oil and 864,000 MCF of gas. Quest is currently upgrading acquired properties to increase daily production to 500-1,000 BOED by Q3-2008 and has expansion plans to achieve 2,500-3,500 BOED by Q1-2009. Quest's ultimate goal is to achieve 25,000-35,000 BOED by Q4-2012 and position itself to introduce its IPO with a potential market capitalization of $6.2B-$8.7B by 2013 – based on Wall Street valuations of Oil & Gas companies issuing IPO's over the past two years 2004-2006, or $250,000 per BOED.

2.1. Company Ownership

Quest is incorporated as a "C" Corporation under the laws of Delaware. The company is headquartered in Albany, Texas and is operating under both the laws of Delaware and Texas.

All shares are private common stock and are currently owned by Paul Downey, founder and CEO of Quest and family members.

2.2. Company History

Quest was founded by Paul Downey in November 2005 to acquire, upgrade and operate various oil and gas producing properties in Texas with a focus on the Permian Basin. Mr. Downey is an entrepreneur with over 35 years experience in the oil & gas industry, including over 16 years as consultant for primarily the petroleum and energy industries and 12 years experience as a field geologist. He led technology evaluations and research & development for advanced technologies in the petroleum and energy industry and was a former owner and operator of an oil & gas company in the Appalachian Basin with approximately 300 wells and regulated gas gathering and distribution systems. He is also the founder of SCTEK, Inc., an advanced petroleum technology firm that has developed applications in the oil and gas industry, including Enhanced Oil Recovery (EOR). In addition, Mr. Downey has established a strong management team to ensure the companies effectiveness in meeting its key success factors. Quest's management team is comprised of seasoned energy industry professionals with over 400 years of combined experiences and industry relationships. Quest's management team's expertise includes oil & gas industry operations, technology, financial management, real estate, market research, product development, project management, risk management, and strategic planning.

Since November 2005, Quest acquired leases on 7,005 acres with proved recoverable reserves of 8,929,000 BBLs of oil and 864,000 MCF of gas. [1] The first acquisition was 640 acres in Callahan County, Texas - the CEP (Callahan Energy Partners) project. The second acquisition in April 2006 was the Kilgore Ranch properties - 23 contiguous producing leases comprised of 1,780 acres in Brown County, Texas. This began Quest's operations. In May 2006, Quest commenced drilling of the first well in the CEP project and completed its third acquisition: KPC Production Project - 21 contiguous leases comprised of 1,200 acres across Caldwell & Guadalupe counties in South Central Texas. Finally, in December 2006, Quest's fourth acquisition was 3,385 acres in the Musselman Caddo Unit (MCU) located in Shackelford County, Texas. Quest focuses on seeking and upgrading acquisitions that have upside water flood potential utilizing Enhanced Oil Recovery (EOR) technologies. The initial four properties have not been water flooded but are in reservoirs that have historically been successfully water flooded.

[1] Quest internal company estimate - Total proved reserves are based on internal estimates, log analysis, volumetric calculations, analogous water flood performance and primary production histories

Start-up Year of Operations

Overall, Quest experienced strong results in 2006 in its first year of operations. Quest commenced the year with $3MM in corporate debt financing and utilized $2.1MM of this capital to acquire 8.9MM BBLs in recoverable reserves. By Q2-2006, Quest began producing revenue and achieved $690K in revenue by end of 2006, after only six months of operations. Quest is on track to achieve $1.1MM revenue in 2007 and plans to achieve $10.1MM revenue in 2008.

Quest's operational break-even of 200 BOED is on target to be achieved by Q1-2008 and is currently focused and on target to achieve its next milestone of 500-1,000 BOED by Q3-2008.

The following are the financials for Quest's first year of operation:

Financial Summary for Start-up Year

	2006
Revenue	$690,943
Operating Expenses	$736,425
Balance Sheet	**2006**
Current Assets	
Cash	$218,730
Accounts Receivable	$636,326
Other Current Assets	$60,546
Total Current Assets	**$915,602**
Long-term Assets	
Capital Assets	$2,163,077
Accumulated Depreciation	($36,262)
Total Long-term Assets	**$2,126,815**
Total Assets	**$3,042,418**
Current Liabilities	
Accounts Payable	$51,655
Current Borrowing	$1,501,446
Other Current Liabilities	$37,460
Total Current Liabilities	**$1,590,561**
Long-term Liabilities	$1,582,538
Total Liabilities	**$3,173,099**
Paid-in Capital	$0
Retained Earnings	($130,681)
Earnings	$0
Total Capital	**($130,681)**
Total Capital and Liabilities	**$3,042,418**

2.3. Company Locations and Facilities

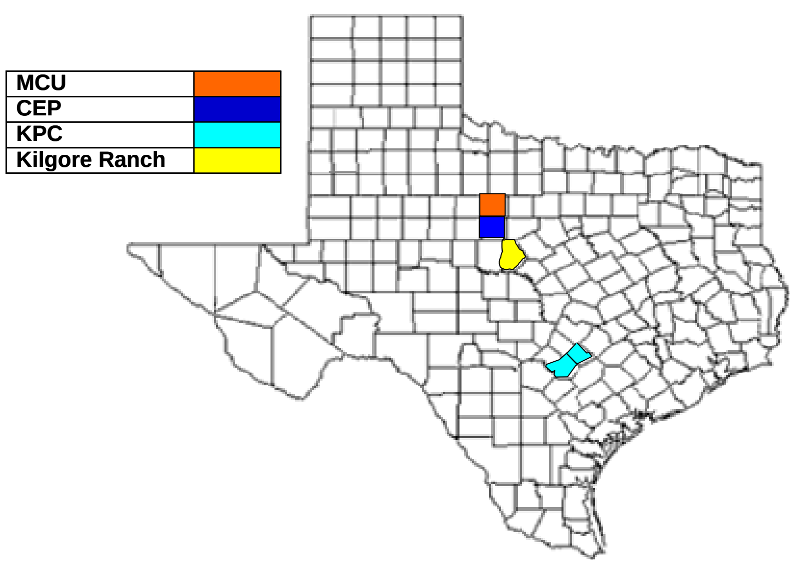
Quest's headquarters are located in Albany, Texas. It is located on the Eastern shelf of the Permian Basin. Quest will primarily focus its oil and gas exploration and production activities within the Texas Permian Basin.

The Permian Basin is a sedimentary basin largely contained in the western part of the Texas. It reaches from just south of Lubbock, Texas, to just south of Midland & Odessa, Texas, extending westward into the southeastern part of the adjacent state of New Mexico. The Permian Basin is one of the largest structural basins in North America. It encompasses a surface area in excess of 86,000 sq mi and includes all or parts of 52 counties located in West Texas and southeast New Mexico. The basin is about 260 mi by 300 mi in area and is separated into eastern and western halves by a north-south trending Central Basin Platform. [2]

The Permian Basin has long been a leader in secondary and tertiary flooding operations. The Basin has produced a cumulative 35 billion barrels of oil with an estimated 20 billion coming from water flooding. Today the Basin produces about 350 million barrels of oil and 1,500 billion cubic feet of natural gas per year.[3]

Quest currently has leases on four oil & gas producing properties within Texas. These leases encompass 7,005 acres with proved recoverable reserves of 8,929,000 BBLs of oil and 864,000 MCF of gas. [4] The leases are split between two regions – 5,805 acres are located on the Eastern Shelf of the Permian Basin and 1,200 acres are in South Central Texas. The properties in the Permian Basin region are as follows: CEP (Callahan Energy Partners) has 640 acres in Callahan County, Kilgore Ranch properties with 1,780 acres in Brown County, and MCU (Musselman Caddo Unit) has 3,385 acres in Shackelford County. The South Central Texas property has 1,200 acres in Caldwell & Guadalupe counties. The following is a map identifying the location of Quest's current properties:

Lease Location Map



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[2] "Permian Basin Province (044)", Mahlon M. Ball
[3] Overview of the Permian Basin, Applied Petroleum Technology Academy, APTA Permian Basin Inc.
[4] Quest internal company estimate - Total proved reserves are based on internal estimates, log analysis, volumetric calculations, analogous water flood performance and primary production histories

3. Oil & Gas Production Services

Quest is an oil & gas exploration and production company that seeks to increase its oil & gas production in the State of Texas with a focus in the Permian Basin. The company acquires leaseholds with upside potential to increase production through water flooding and Enhanced Oil Recovery (EOR) technologies. Quest produces oil and gas and sells to the market at the current market price and has acquired leases with recoverable reserves of 8,969,000 barrels of oil and 894,000 MCF of gas. [5]

Based on conservative projections from The Energy Information Administration (EIA), the market price of oil is expected to be at $49-$69 per barrel (projected in 2005 dollars) between now and 2030.[6] Several industry experts including Matthew Simmons and Boone Pickens have noted that prices are expected to increase significantly, to even triple digits, as increasing global demand strains global supply capabilities (refer to Section 4.1 below for more details). Oil prices in the last 12 months have fluctuated between approximately $50 and $76 per barrel. With lifting and O&M costs estimated at approximately $20 per barrel and royalties at typically 20% of sales, based on conservative oil and gas price projections, Quest expects a significant gross margin of about $19-$35 per barrel produced (estimated based on $49-$69 per barrel).[7] At current market prices, this margin is actually at approximately $40 per barrel produced. Even through market prices are currently higher than EIA's conservative estimates and some industry experts expect oil prices will escalate to even triple digits, Quest applied conservative estimates to its financial projections.

Quest will expand oil production though the application of water flooding and proven Enhanced Oil Recovery (EOR) technologies. One of these technologies will be Quest's proprietary Velocity Induced Catalytic Reactor (VICR). Data from an independent technical laboratory as well as actual field test results have indicated an increase in water injection rates of up to 35% over untreated water when using the VICR. At the same time, oil production rose approximately 22%. Quest will also expand production of both oil and gas through acquisitions that provide upside potential based on water flood and EOR/Technology methods. [8]

3.1. Competition

In the oil and gas production business there are no competitive products, services, or pricing. Revenue is determined by the amount of oil and gas produced in terms of barrels of oil or MCF (thousand cubic feet) of natural gas and the market prices of these commodities, which are driven by supply and demand, not competition. The most significant form of competition is the access to the properties that supply the resources. Another form of competition is alternative energy technologies. Although there will be an expected growth in emergence of alternative energy technologies, fossil fuels will continue to provide 87% of the worlds primary energy needs in 2030 and continue to be used as energy sources and raw materials by the chemical, plastic and pharmaceutical industries.[9]

[5] Quest internal company estimate - Total proved reserves are based on internal estimates, log analysis, volumetric calculations, analogous water flood performance and primary production histories
[6] Annual Energy Outlook 2007-Petroleum Product Prices, Energy Information Administration
[7] Quest Management Group, Inc. Cost Estimates
[8] Results from Kansas Pilot Project for Velocity Induced Catalytic Reactor and the Effect on Waterflood Oil Recovery Rates and Total Ultimate Recovery-May 19, 2003, PAR Services, James E. Hessert
[9] Standard & Poor's Industry Surveys Oil and Gas: Production & Marketing (2005)

3.2. Acquisition & Divestitures Environment

Acquisition opportunities with upside potential are plentiful in the marketplace. According to a study performed by Richardson Barr & Co. in August 2006, there were increases in private and private equity asset supply, increases in oil and gas commodity prices, increases in public and private capital markets, and increases in asset demand for public and private equity. Acquisition & Divestitures (A&D) exploded in 2005 and 2006, driven primarily by opportunistic private and private equity selling. At the time of the August 2006 report, data showed that there were $50 billion in deals transacted within the first eight months of the year. In reference to the onshore A&D sector, public companies acquired over 3 times as much as they divested onshore. On the other hand, private and private equity companies divested 8-10 times as much as they acquired onshore. Private and private equity companies have been adding significant asset supply to the market. At the time of the study, of the 58 divestitures, totaling $12.1 billion in valuations, 52 (90%) of the divestitures, valued at $9.2 billion (76%) came from private and private equity companies. The average paid by the top ten public acquirers for proved reserves was $13/BOE and $77,960/BOED daily production for acquisitions. Per the study, the price paid in the Permian Basin for proved reserves was $11.58/BOE, 12% below the $13/BOE average or 5.2x annual cash-flow.[10]

As an example of recent A&D activities, Dominion Resources divested most of their oil and gas reserves with 5.5 trillion cubic feet of gas equivalent (TCFE) of proven oil and gas reserves for $13.9 billion to the following energy companies from April-2007 to July-2007: Eni Petroleum acquired 967 BCFE for $4.76B on 4/30/07, Paramount Energy Trust acquired 267 BCFE for $624MM on 5/29/07, Baytex Energy Trust acquired 2.5 trillion cubic feet of gas equivalent (TCFE) for $4.025B on 6/4/07, XTO Energy acquired 1.0 TCFE for $2.5B on 6/4/07, and Linn Energy acquired 780 BCFE for $2.05B on 7/2/07. [11]

As another example of recent acquisition activity, Apache Corporation announced on March 29, 2007 the closing on a $1 billion acquisition of controlling interest in 28 producing oil and natural gas fields in the Permian Basin from Anadarko Petroleum Corporation. The fields, with 218,000 gross acres, include more than 300 drilling locations. Apache booked net reserves of 70 million barrels of oil equivalent (BOE) (57MM BOE of oil and 78 BCFE of natural gas), netting estimated daily production from the fields of 9,000 BBLs of oil and 19 MMCF of gas per day.[12]

A more recent proposed transaction announced in the Permian Basin region is with Legacy Reserves, LP. Rigzone.com reported on July 12, 2007 that Legacy Reserves signed a definitive purchase agreement to acquire certain oil and natural gas producing properties from private parties for a purchase price of $20.3 million for 1.22MM BOE proved reserves with 92% proved developed producing reserves, proved reserves to production ratio of approximately 11 years, and 302 BOED current daily production. This transaction is subject to purchase price adjustments, to be paid in cash. The properties are located primarily in the Permian Basin. The acquisition is also subject to customary closing conditions and is expected to close during August 2007. [13]

[10] A&D Market Update, August 2006, Richardson Barr & Co.
[11] Houston Chronicle Article, Energy Shares Up 13% on $2 Billion Deal , July 2, 2007, Linn, Ashley Harris
[12] Arrows-Apache Corporation Newsletter, Acquisition Expands Permian Basin Operations, June 2007
[13] Legacy Inks Deal for Permian Basin Acreage, July 12, 2007, RIGZONE.com

3.3. Technology

Quest produces oil through primary and secondary recovery methods. When producing oil through secondary recovery, Quest will use water flooding and proven Enhanced Oil Recovery (EOR) technologies to maximize production output and achieve greater than or equal to a 1:1 primary to secondary recovery ratio, meaning that Quest will extract as much oil through secondary recovery methods as was recovered through primary recovery methods.

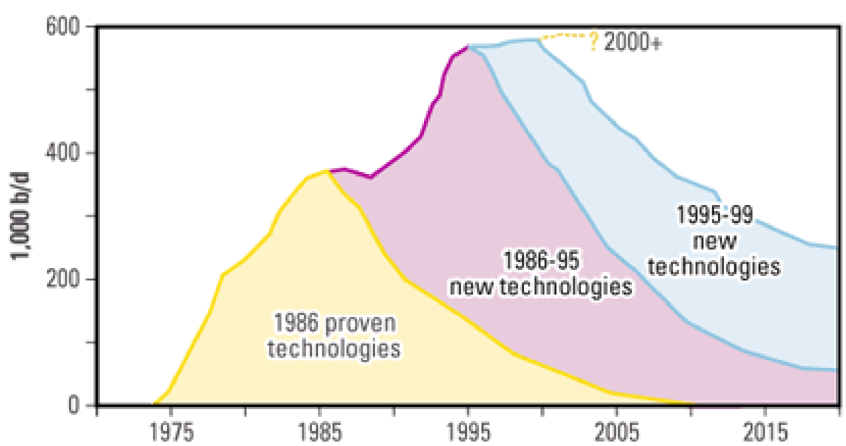
Only about 10 percent of a reservoir's original oil in place is typically produced during primary recovery. Secondary recovery techniques add to the field's productive life by injecting water or gas to displace oil and drive it to a production wellbore, resulting in the recovery of 20 to 40 percent of the original oil in place. However, there are producers that have attempted several EOR techniques that offer prospects for ultimately producing 30 to 60 percent, or more, of the reservoir's original oil in place.[14]

Regarding secondary recovery, Quest will only focus on applying water flooding and EOR methods and technologies. One of the proven EOR technologies Quest will use to maximize extraction of oil is the VICR 2X2 System, a Velocity Induced Catalytic Reactor (VICR), Quest's proprietary technology. Based on independent technical laboratory and field test results, this technology has increased water injectivity up to 35% and oil production up to 22%. Quest is in the process of installing the VICR 2X2 system in the Kilgore Ranch property and expects to achieve a significant increase in oil production. [15]

Quest believes that technology will be the key to future production growth. The Oil & Gas Journal issue, dated January 1, 2007, stated, "Technology remains the key to how fast and how much remaining oil and gas resources the industry can produce economically from the varied environments that hold the most potential: deep water, arctic regions, coalbeds, partially depleted reservoirs, and deep, tight formations with high temperature and pressure, as well as formations containing heavy oil or bitumen."[16] Quest is committed to applying disciplined judgment on investment opportunities of proven advanced technologies to maximize oil and gas production capabilities. As an example of technology's positive impacts to oil production growth capabilities, the chart below from International Energy Agency (IEA) illustrates how technology has and will positively impact future production growth on North Sea production.

TECHNOLOGY'S EFFECT ON NORTH SEA PRODUCTION

Fig. 4



Source: IEA from European Network for Research in Geo-Energy, courtesy of Shell

[14] Enhanced Oil Recovery, Fossil Energy, U.S. Department of Energy
[15] Results from Kansas Pilot Project for Velocity Induced Catalytic Reactor and the Effect on Waterflood Oil Recovery Rates and Total Ultimate Recovery-May 19, 2003, PAR Services, James E. Hessert
[16] Oil & Gas Journal, January 1, 2007 Issue

3.4. Future Services

Quest will focus on upgrading and expanding existing properties as well as acquiring new proven assets with upside potential for water flooding and Enhanced Oil Recovery (EOR) technologies to achieve its goal of 25,000-35,000 BOED by Q4-2012.

Although Quest's primary focus will be increasing oil and gas production in the Permian Basin, it may expand beyond that territory after 2012. Since achievement of production goals will require the application of proven advanced technologies through EOR, including Quest's proven proprietary product, the VICR 2X2 system, the company may expand into the new oil & gas production technology services sector to offer proven solutions to the industry. However, this is not included in the current five year expansion plan.

4. Market & Industry Summary

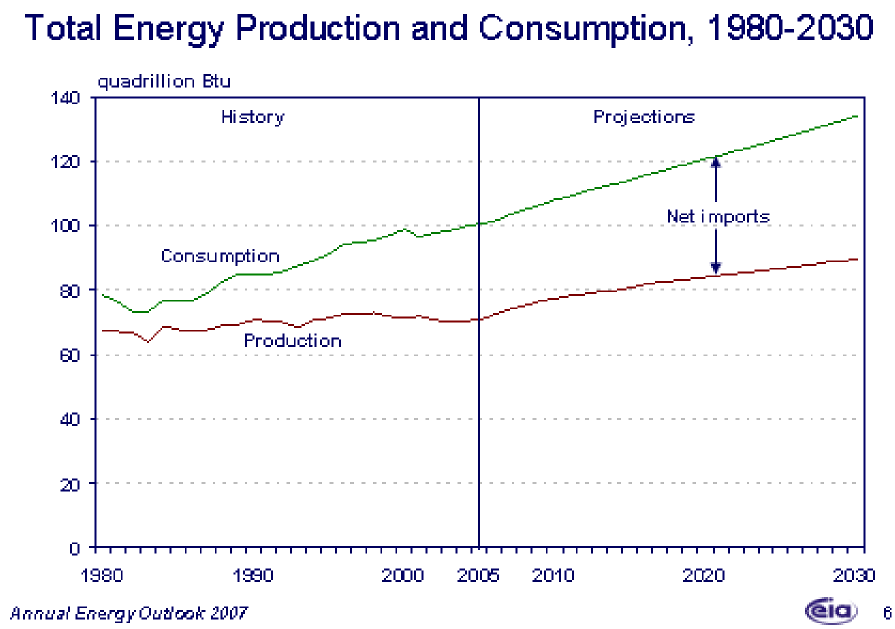
The oil and gas industry currently offers very favorable investment opportunities. This industry will continue to experience increasing global demand for its products at a greater pace than projected supply, due to increasing local and global demand for energy. As a result, the commodity prices are expected to remain at favorable levels and are expected to increase as global demand continues to strain supply levels. In addition, access to proven reserves has increased, driven primarily by opportunistic equity buying and selling. This is confirmed through acquisition and divestiture (A&D) activities reported in Section 3.2 above.

Overall, demand is high and continuing to increase, outpacing projected supply. Commodity prices are at favorable levels and are expected to potentially increase as growing global demand continues to strain global supply capabilities. Also, opportunities to acquire proven oil and gas reserves have increased. Therefore, oil & gas exploration and production companies that acquire proven reserves with upside potential to increase production will enjoy very favorable margins, significant positive cash-flows, and exponential increases in market capitalization.

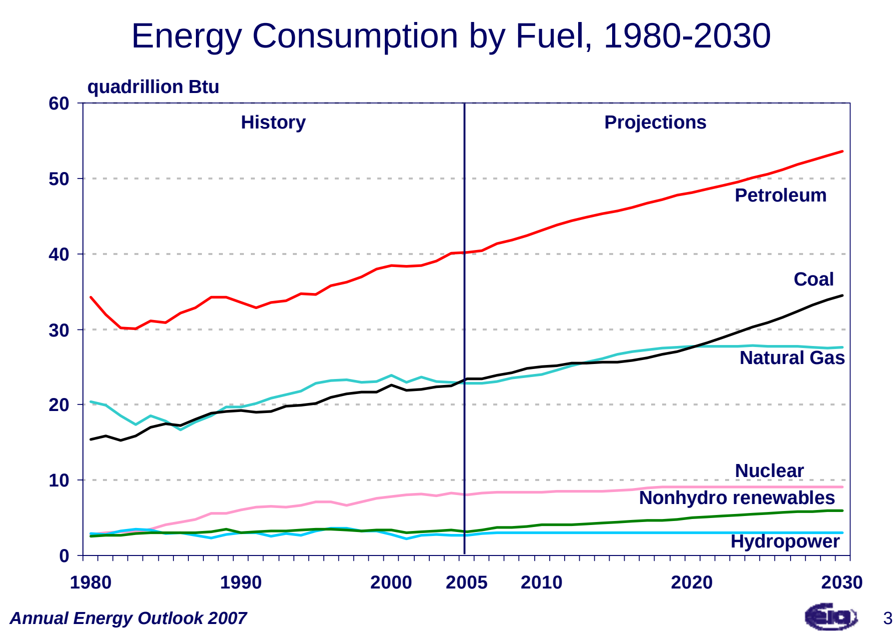
4.1. Market Analysis

The energy industry is one of the largest industries in the world with products and services ranging from the exploration and production of crude oil and natural gas to generation and distribution of electricity. These industries will continue to grow significantly due to the rising demand from both developed and emerging countries, along with tightening supplies due to under investments and tightening of supply in recent years. Overall, energy consumption in the U.S. is expected to grow 31% from 2005 to 2030. Energy demand growth will continue to outpace energy production growth, resulting in an increasing dependency on net imports to 32% of total energy by 2030 in order to support the expected demand. [17]

[17] Annual Energy Outlook 2007-Total Energy Supply Disposition Summary, U.S. Department of Energy, Energy Information Administration



Currently, global consumption of oil is approximately 84 million barrels of oil per day. EIA projects that by 2030, global consumption of oil will reach 120 million barrels of oil per day. Fossil fuels are the largest type of energy resources consumed. In 2005, Fossil fuels were 86% of the total energy resources consumed, where oil and gas combined, totaled 63% of the energy consumed. The demand for liquid fuels is expected to grow over 28% between 2005 and 2030. [18]

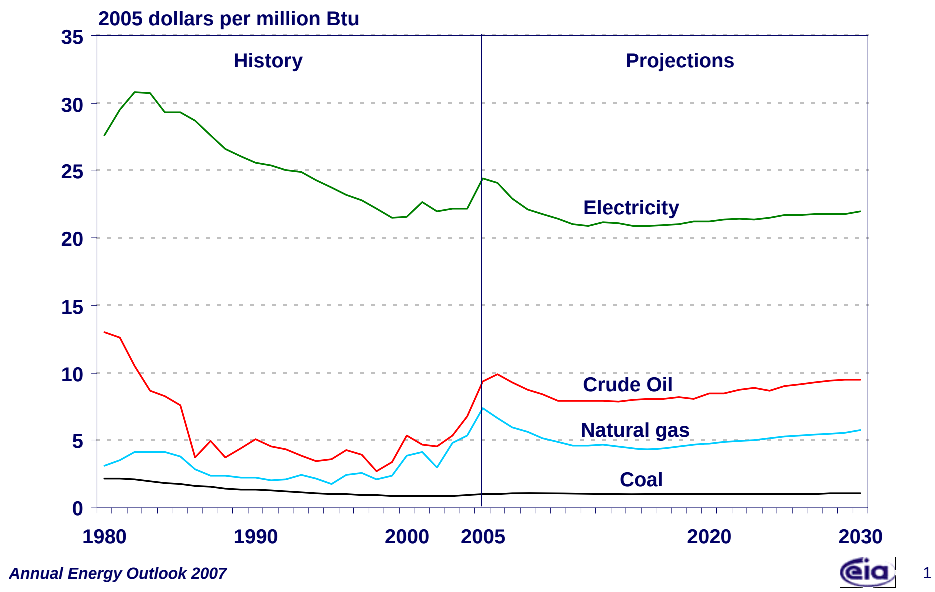


[18] Annual Energy Outlook 2007-Total Energy Supply Disposition Summary, U.S. Department of Energy, Energy Information Administration

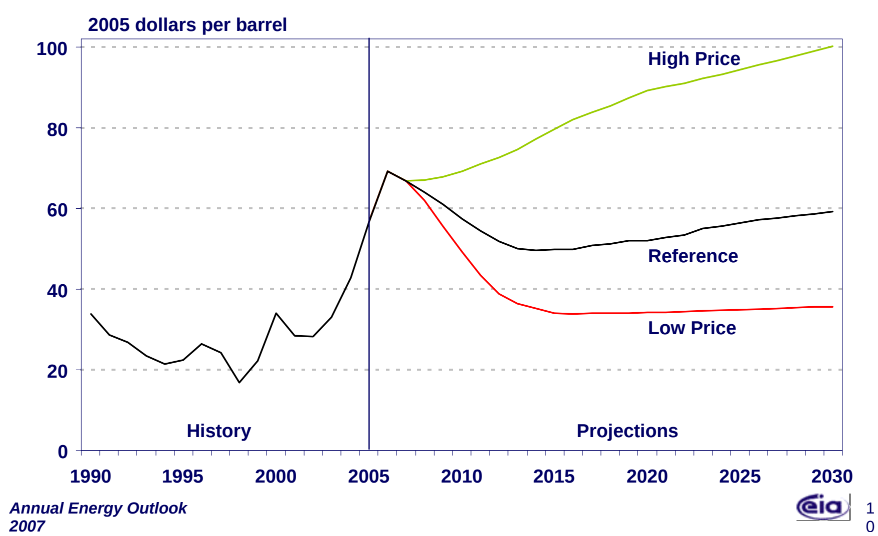
On a global basis, the demand for new capacity is expected to be even greater. By 2025, global energy demand is expected to increase 57% from 2002 levels. [19] Although there will be an expected growth in emergence of alternative energy technologies, fossil fuels will continue to provide 87% of the worlds primary energy needs and continue to be used as energy sources and raw materials by the chemical, plastic and pharmaceutical industries.[20]

According to EIA's conservative projections, although oil and natural gas commodity prices fluctuate daily, they project that prices will remain generally favorable, within the following ranges: $49-$69 per barrel of oil and $4.84-$7.29 per MCF of natural gas (estimated in 2005 dollars), averaging +0.16% and -0.9% growth, respectively, from 2005 to 2030.[21]

Energy Prices, 1980 - 2030



World Oil Prices in Three Cases, 1990 -2030



[19] Energy Information Administration, "System for the Analysis of Global Energy Markets" (July 2005)
[20] Standard & Poor's Industry Surveys Oil and Gas: Production & Marketing (2005)
[21] Annual Energy Outlook 2007-Petroleum Product & Natural Gas Price Projections, U.S. Department of Energy, Energy Information Administration

Oil prices in the last 12 months have fluctuated between approximately $50 and $76 per barel. [22] According to some industry experts, oil prices may reach triple digits if increasing global demand exceeds peak supply capacity levels. Matthew Simmons, founder of Simmons & Company International, an investment bank that advises energy companies on mergers and acquisitions and counts among its clients Halliburton, General Electric, and the World Bank, in addition to being an energy industry advisor for the 2000 Bush Administration, believes that oil prices will reach triple digits by 2010 due to anticipated strains on global supply to meet increasing demand. [23] Boone Pickens, the legendary Texas oilman, who heads Dallas hedge fund BP Capital, has noted in several interviews with the Associated Press and the Wall Street Journal, that when global demand exceeds 85 million barrels of oil per day, prices will significantly increase due to strain on global supplies. The Energy Information Administration (EIA) projects that oil demand will reach 120 million barrels of oil per day by the year 2030. [24] Even through market prices are currently higher than EIA's conservative projections and some industry experts expect escalating oil prices to potentially triple digits, Quest has applied conservative estimates to their financial projections in this business plan.

4.2. Industry Profile

The oil and natural gas industry is fundamental to the economy with six of the 12 largest investor-owned corporations being energy companies[25]. Petroleum and natural gas resources are used to create fuels for heating, electric power, and transportation. Petroleum is also used as the raw material for many chemical products, including solvents, pesticides, fertilizers, and plastics. Companies in the energy industry have invested more than $1 trillion in exploration, development, production and distribution of oil and natural gas in the United States since 1992. [26] The world's estimated remaining resources for conventional oil total 2.2 trillion barrels, not including unconventional heavy oil resources that amount to an additional 800 billion barrels. Today, the world consumes about 84 million barrels of oil per day with the United States, accounting for approximately 25% of the consumption.[27] The Energy Information Administration (EIA) projects that oil demand will reach 120 million barrels of oil per day by the year 2030. [28]

Factors that impact supply and demand are the following items: Geo-political events, legal/regulatory environments, advances in existing and new technologies, prices/rates, and economic conditions, decline in production, and quality of crude oil, natural gas and petroleum product derivatives.

The total investment requirement for energy-supply infrastructure worldwide over the period 2001-2030 is $16 trillion. This investment is needed to expand supply capacity and to replace existing and future supply facilities that will be exhausted or become obsolete during the projection period. Total investments in the oil and gas sectors will each amount to more than $3 trillion, or around 19% of global energy investment. In total, 51% of investment in energy production will be needed simply to replace or maintain existing and future capacity. The remaining 49% will be to increase capacity to meet rising demand. [29]

[22] Crude Oil Futures Prices, NYMEX
[23] Grist November 03, 2005 Interview with Matthew Simmons, Amanda Griscom Little
[24] Pickens Says Oil Production at Peak, Associated Press Interview, March 2, 2007, Jim Krane
[25] American Petroleum Institute, 2006
[26] American Petroleum Institute, 2006
[27] ExxonMobil, 2005 Energy Outlook
[28] Pickens Says Oil Production at Peak, Associated Press Interview, March 2, 2007, Jim Krane
[29] World Energy Investment Outlook 2003, International Energy Agency

4.3. Key Market Participants

Quest believes that it will become one of the larger market participants in the region by reaching an achievable goal of 25,000-35,000 BOED by Q4-2012, primarily through new acquisitions with upside potential for water flooding and Enhanced Oil Recovery (EOR) technologies. The list below has the largest producers of oil in the region in terms of barrels of oil produced in 2006. Some of these key participants may be involved in acquisition and divestiture activities during the planned period. For more details regarding acquisition and divestiture activities in the industry, refer to Section 3.2 above.

RAILROAD COMMISSION OF TEXAS DATE 02/15/2007 Texas Largest Oil Producers (Based on Production from January, 2006 through December 2006) Barrels of Oil Produced		
TEXAS LARGEST OIL PRODUCERS	**YEARLY**	**DAILY**
1 OCCIDENTAL PERMIAN LTD	51,522,874	141,159
2 KINDER MORGAN PRODUCTION CO LP	20,983,215	57,488
3 CHEVRON U. S. A. INC.	14,231,630	38,991
4 OXY USA WTP LP	10,658,110	29,200
5 APACHE CORPORATION	10,273,726	28,147
6 EXXON MOBIL CORPORATION	10,066,543	27,580
7 PIONEER NATURAL RES USA, INC.	9,483,854	25,983
8 XTO ENERGY INC.	8,831,327	24,195
9 HESS CORPORATION	7,734,483	21,190
10 CHEVRON MIDCONTINENT, LP	5,457,902	14,953

5. Strategy and Implementation Summary

Through acquisition of desirable properties, technology and experience in industry, Quest's strategy is quite simple yet specific:

A. Acquire proven reserves with upside potential
B. Increase production in a cost effective manner
C. Increase market capitalization
D. Pursue above average margins

Quest's five year expansion plan will create production growth capabilities through the there phases of expansion to ultimately achieve the daily goal of 25,000 to 35,000 BOED by Q4-2012. This will require approximately $618MM in capital investments during the life of the plan as the Company acquires, develops and upgrades the purchased properties.

Phase I of 500-1,000 BOED is a significant milestone as it will enable greater investment community interest in the potential of the Company. While on target at this point to achieve this goal by Q3-2008, Quest will require approximately $5MM in capital investment in order to reach this objective.

The second major milestone (Phase II) that will make Quest a significant producer in the Permian Basin will be reaching the goal of 2,500-3,500 BOED by Q3- 2009. It will require an additional $60MM in capital investment for this phase of the Company's strategy.

The third expansion (Phase III) will require the majority of the estimated $611MM in capital investment during the last few years of the overall plan. Achieving this goal, in addition to creating market capitalization and net worth, will position Quest as one of the larger independent operators in the Permian Basin and provide improved as well as additional business opportunities.

5.1. Oil & Gas Production Goals

Quest will focus on three primary goals over the next five years:

Phase I: Production Expansion goal of 500-1,000 BOED by Q3-2008

Develop and upgrade current projects (MCU, CEP, Kilgore, and KPC). No additional acquisitions will be needed for this phase. This goal is on target to be implemented by Q3-2008.

Phase II: Expansion goal of 2,500-3,500 BOED by Q3-2009

Fully develop existing projects, including increasing the number of wells and applying water flooding and Enhanced Oil Recovery (EOR) technologies.

Phase III: Expansion to 25,000-35,000 BOED by Q4-2012

Acquire and develop new properties with upside potential for water flooding and EOR technologies and develop and upgrade those facilities.

5.2. New Acquisition Opportunities

As noted in Section 3.2, Acquisition & Divestitures Environment, acquisition opportunities with upside potential are currently plentiful in the marketplace. Quest will seek new acquisition opportunities that have upside potential for water flooding and EOR technologies. As a more focused midsized independent, Quest will be able to operate its acquisitions more efficiently on a production per barrel basis than the larger companies. Although Quest currently owns access to proved recoverable reserves of 8,929,000 BBLs of oil and 864,000

MCF of gas[30], it will continue to seek additional proved recoverable reserves with upside potential to achieve its goal of 25,000-35,000 BOED by **Q4-2012**.

5.3. Milestones

The following is Quest's high level plan with capital expenditure requirements to implement Phases I and II expansions in order to achieve 2,500-3,500 BOED production goal. This plan will be expanded further to support Phase III in achieving 25,000-35,000 BOED daily production.

Quest Energy Management Expansion Plan																	
PHASES OF DEVELOPMENT	Daily Prod Goal (BOED)	Required Investment				Timeline											
						2007				2008				2009			
		Repurchase (payback investors)	VICR 2X2 System Costs	Upgrade Costs	Total Costs	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
PHASE I: EXPAND DAILY PROD TO 500 BOED																	
MCU	**400**	N/A	**$ -**	**$ 1,950,000**	**$ 1,950,000**												
Bring Gas Online				$ 25,000	$ 25,000												
Workover - existing wells				$ 300,000	$ 300,000												
Drill 2 gas wells				$ 200,000	$ 200,000												
Water Flood Engineering				$ 150,000	$ 150,000												
Plug & Abandon 3 wells				$ 25,000	$ 25,000												
Install Water Flood Pilot				$ 1,250,000	$ 1,250,000												
Kilgore	**300**	N/A	**$ 150,000**	**$ 1,200,000**	**$ 1,350,000**												
Unitize Leases				$ 450,000	$ 450,000												
Install Water Flood Pilot			$ 150,000	$ 600,000	$ 750,000												
Water Flood Engineering				$ 150,000	$ 150,000												
CEP	**60**	N/A	**$ 75,000**	**$ 775,000**	**$ 850,000**												
Drill 4 wells			$ 75,000	$ 775,000	$ 850,000												
KPC	**250**	N/A	**$ 50,000**	**$ 600,000**	**$ 650,000**												
Workover - 35 existing wells				$ 500,000	$ 500,000												
Install Water Flood Pilot			$ 50,000	$ 100,000	$ 150,000												
Working Capital, Contingencies, & Transaction Costs					**$ 200,000**												
TOTAL	**1,010**	**$ -**	**$ 275,000**	**$ 4,525,000**	**$ 5,000,000**												
PHASE II: EXPAND DAILY PROD TO 3,300 BOED																	
MCU	**2,000**	$ 2,000,000	$ 2,000,000	$ 10,015,000	**$ 14,015,000**												
Drill 47 Wells				$ 10,015,000													
Install Water Flood			$ 2,000,000														
Kilgore	**1,000**	$ 2,000,000	$ 2,000,000	$ 13,688,500	**$ 17,688,500**												
Drill 80 Wells				$ 13,688,500													
Install Water Flood			$ 2,000,000														
CEP	**400**	$ 2,000,000	$ 800,000	$ 5,611,000	**$ 8,411,000**												
Drill 22 Wells				$ 5,611,000													
Install Water Flood			$ 800,000														
KPC	**800**	$ 10,000,000	$ 1,600,000	$ 1,000,000	**$ 12,600,000**												
Workover - remaining existing wells				$ 1,000,000													
Install Water Flood			$ 1,600,000														
Working Capital, Contingencies, & Transaction Costs					**$ 7,285,500**												
TOTAL	**4,200**	**$ 16,000,000**	**$ 12,800,000**	**$ 60,629,000**	**$ 60,000,000**												

[30] Quest internal company estimate - Total proved reserves are based on internal estimates, log analysis, volumetric calculations, analogous water flood performance and primary production histories

5.4. Funding Strategy

This business plan will require approximately $611MM in capital investments during the life of the plan to support the three phased expansion required to achieve the goal of 25,000-35,000 BOED daily production by Q4-2012. As noted above, this includes approximately $200MM from reinvested capital and $350MM-$400MM from investors/lenders. The following is Quest's funding strategy to support the plan for each of the phases:

Phase I: Expansion to 500 BOED

Quest will require $5MM in capital investments to develop and upgrade current projects (MCU, CEP, Kilgore, and KPC). Quest will consider flexible and competitive options such as corporate debt financing, 1031 Real Estate Exchanges and private MLPs to obtain the required capital.

Phase II: Expansion to 2,500-3,500 BOED

Quest will require $60MM in capital investments to fully develop the existing projects, including increasing the number of wells and apply water flooding and Enhanced Oil Recovery (EOR) technologies. Based on market conditions, Quest will consider any combination of flexible and competitive options such as corporate debt financing, 1031 Real Estate Exchanges, and private MLPs to obtain the required capital. It will be Quest's plan to pay off all existing corporate debt financing when funded for this expansion.

Phase III: Expansion to 25,000-35,000 BOED

Quest will require $350MM-$400MM in capital investments to support acquisition and development of new properties with upside potential and development and upgrades of those facilities. Based on market conditions, Quest will consider any combination of flexible and competitive options such as corporate debt financing, 1031 Real Estate Exchanges, and private MLPs to obtain the required capital. It will be Quest's desire to pay off any remaining corporate debt financing when funded for this expansion.

Phase IV: IPO

After the five year expansion, depending on market conditions, Quest may target introducing its IPO with an expected market capitalization of $6.2B-$8.7B. (This is based on a $250K market valuation per BOED, with a projected 25,000-35,000 BOED)

5.5. Revenue Plan

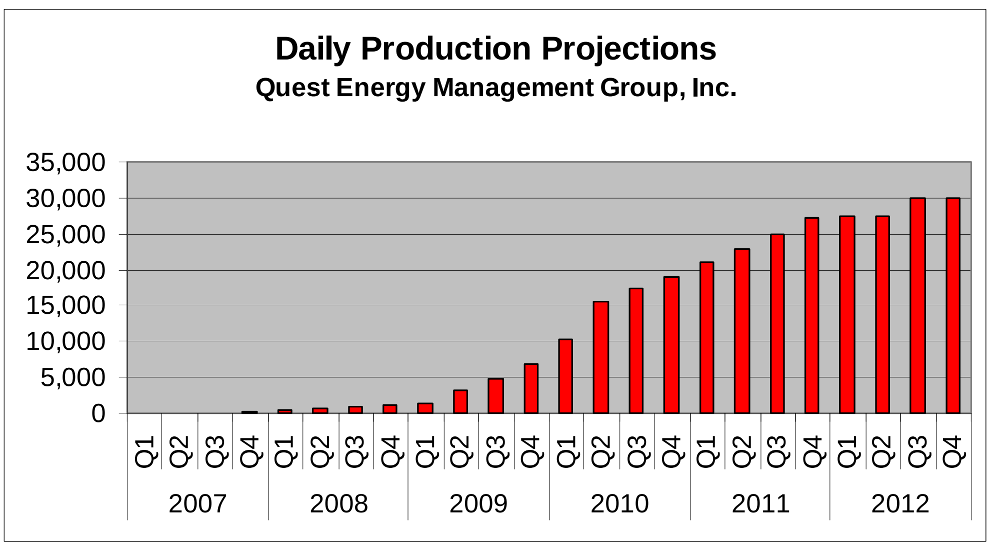
Quest will generate its revenue primarily from oil and gas production sold at market prices in terms of $/bbl for oil or $/MCF for natural gas. Based on the plan's six year production projections and using the projected market prices of $49-$69 per barrel for oil and $4.84-$7.29 per MCF for natural gas (estimated in 2005 dollars), Quest projects to grow revenue from $690K in 2006 to $427MM in 2012. This growth will come from upgrading existing properties and acquiring new leases with upside potential, requiring approximately $611MM in capital from 2007 to 2012. This will include approximately $200MM from reinvested capital and $350MM-$400MM from investors/lenders.

It is important to note that even though market prices are currently higher than EIA's conservative projections and while some industry experts expect escalating oil prices~~,~~ to potentially reach triple digits, Quest has applied and maintained conservative estimates to their financial projections in this business plan.

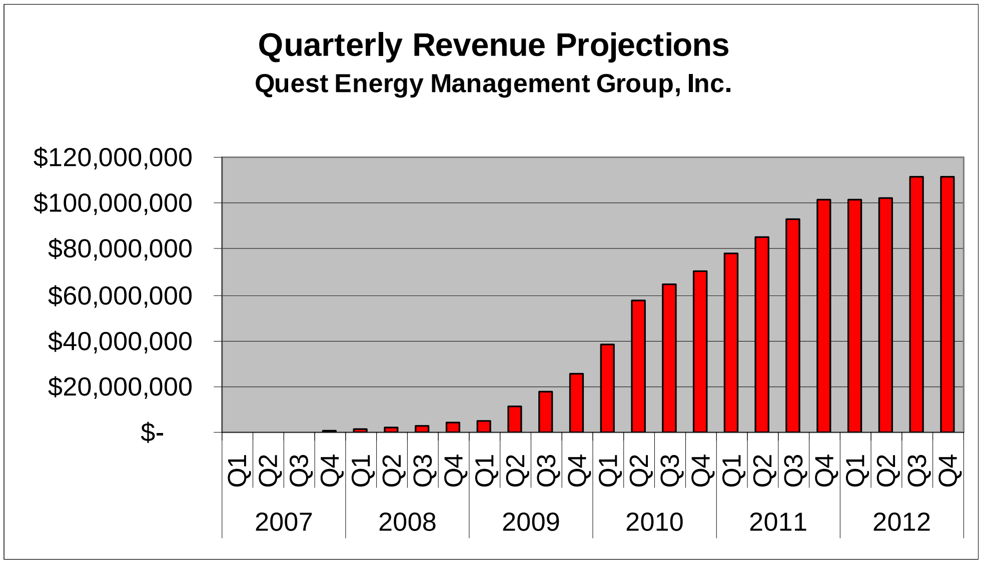
5.5.1. Revenue Forecast

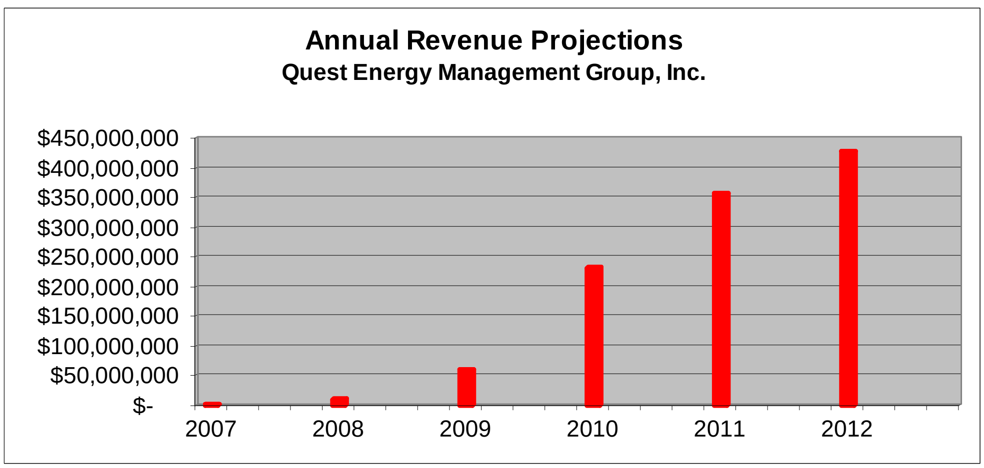
Quest's revenue forecast is based on projected oil and gas production and forecasted market commodity prices. Quest plans to achieve the following goals: 200 BOED by Q1-2008, 500-1000 BOED by Q3-2008, 2,500-3,500 BOED by Q3-2009, and 25,000-35,000 BOED by Q4-2012. The following graphs show the forecasted production and revenue projections from 2007 to 2012, covering the term of the six year business plan.

Daily Production Projections (BOED)



Revenue Projections





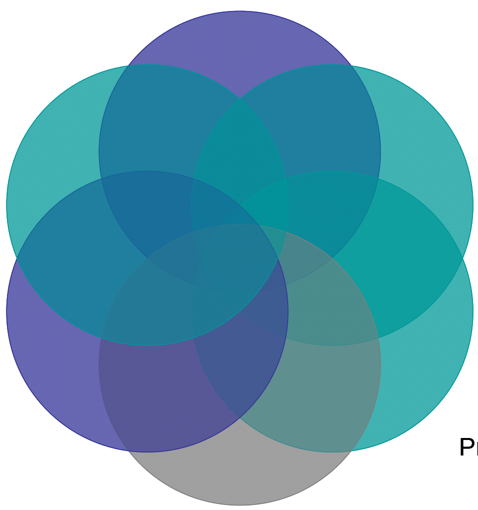
6. Management Summary

Quest's management team and strategic partnerships are comprised of seasoned energy industry professionals with over 400 years of combined experiences and industry relationships. Quest's management team has expertise in oil & gas industry operations, technology, product development, project management, risk management, and strategic planning. Quest has an Executive Committee and Operations Management Team with the experience and framework needed to succeed. The team will grow as the needs of the business expand.

6.1. Organizational Structure

Quest's organization is structured based on two tiers of management: The Executive Committee and Operational Management. The Executive Committee, led by Paul Downey, founder, President, and CEO of Quest, is comprised of senior Oil & Gas Industry experts with over 180 years of combined experience, including current and former industry executive and company founder experiences. Each of the members brings unique expertise and industry relationships, which are used to determine the strategic direction of the company. The Operations Management Team, also led by Paul Downey, is in place to manage Quest's day-to-day operations.

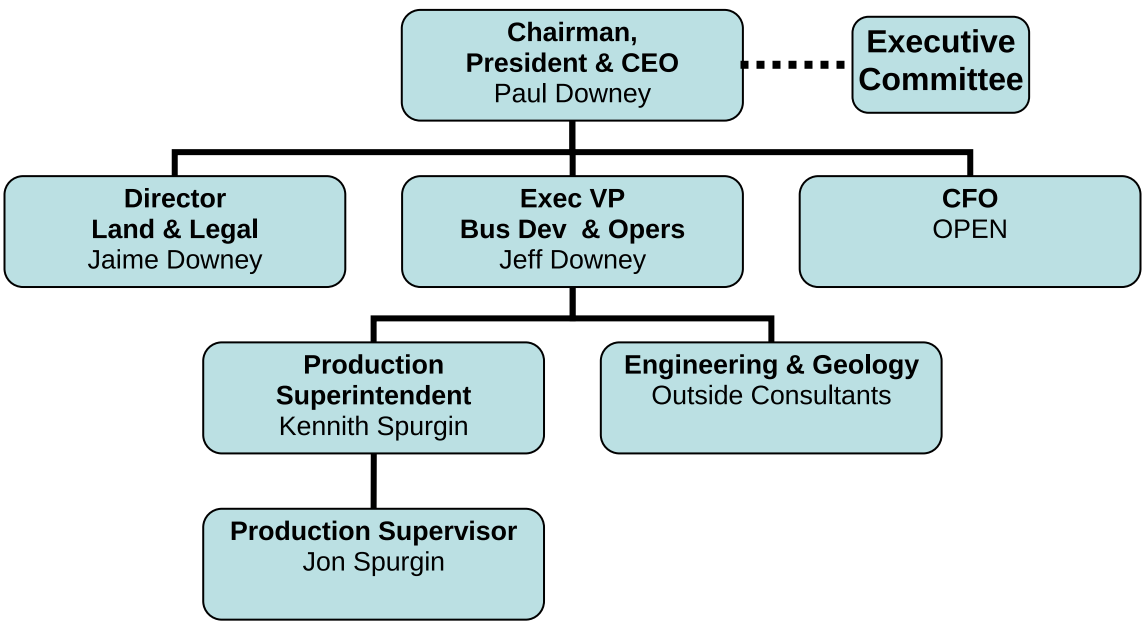
Executive Committee



Quest's Operations Management Team will need to expand in order to support the five year plan. The Operations team will need to grow from a current staff of eleven to up to 140 employees by 2012 to support the production goal of 25,000-35,000 BOED. The current staff is sufficient to achieve the first phase of expansion to 500-1,000 BOED daily production levels by Q3-2008. The staff will need to grow to 20 employees by end of 2008 in order to support the second phase of expansion to 2,500-3,500 BOED by Q3-2009. Finally, the organization will be required to grow to approximately 140 employees by 2012 in order to support projected production of 25,000-35,000 BOED by Q4-2012. The operations management team shown below, along with additional support staff, totaling 20 employees is the structure needed to support Phase II expansion (refer to Personnel Plan in section 6.6, below). The entire organization to support Phase II is estimated to cost approximately $1.9MM annually in salaries and benefits, with a potential to produce approximately $50M-$70MM in annual revenues.

Phase II Expansion

Operations Management Team



6.2. Management Team

PAUL DOWNEY

Founder & CEO - Mr. Downey has been a consultant primarily to the petroleum and energy industries for the past sixteen years and has been involved in the oil industry for the past 35 years. He has 12 years experience as a field geologist, worked on various technology evaluations, research and development projects and has consulted on oil and gas development in Russia, Yemen, Kuwait, Indonesia and domestically. Prior to his consulting business, Mr. Downey owned and operated an oil & gas production company in the Appalachian Basin - this company included a regulated gas gathering and distribution system as well as approximately 300 wells.

W. E. (BILL) BOOKER

Executive Committee Member & Consultant - Mr. Booker has worked in the Petroleum industry for over 47 years, most recently as president and CEO of two drilling fluids companies (Coastal Drilling Fluids and BlackHawk Drilling Products) in Houston, Texas. Under Mr. Booker's guidance, Coastal Drilling Fluids took over two other drilling fluid companies through a series of mergers. Previously, Mr. Booker served as president of two divisions of Weatherford International in the early stages when the company became a public entity. Mr. Booker received his degree in Petroleum Geology from the University of Florida in 1959.

DR. ROBERT SCHUCKER

Executive Committee Member & Consultant - Dr. Schucker has a PhD degree in Chemical Engineering from the Georgia Institute of Technology focusing on non-equilibrium chemical kinetics. He has over 30 years experience in the petroleum industry. He spent over 23 years of his career with Exxon, where he became an expert in petroleum processing with a focus on separation-based technology. He has a broad background in heavy oil chemistry and characterization, membrane development/processing and electrochemistry and an acknowledged expert in membrane systems with a particular focus on pervaporation. Dr. Schucker also holds 42 US patents, mostly in the organic (polymeric) and inorganic membrane area. In 2000, Dr. Schucker founded Trans Ionics Corporation to develop and commercialize advanced separation-based technologies for the petroleum, petrochemical, chemical, electric power and environmental markets. The company has received $2 million in Federal Small Business Innovation Research (SBIR) grants, primarily from the U. S. Department of Energy.

CHRISTOPHER D. MOODY

Executive Committee Member - Christopher D. Moody is Vice President & Treasurer of Valhalla Management, Inc. and Co-Managing Member of Viking Management, LLC. He is also a board member of Bonds.com Holdings, Inc. and Co-Managing Member of Viking Oil and Gas, LLC. Valhalla Management and Viking Management are the General Partners of or associated with 6 hedge funds that have assets of over $320 Million. Mr. Moody received his Bachelor of Science in Finance from Lehigh University. He started his business career with American Express Financial Advisors. Desiring to offer his clients more financial products and services, he moved to UBS Paine Webber as a Financial Advisor. Mr. Moody built a successful book of business by offering full financial planning, asset allocation and alternative investments to his domestic and international clients. He then joined his father, Neil V. Moody, in January of 2003 in his current capacity. Christopher has carried in the past the following licenses: National Commodity Futures, General Registered Representative, Uniform Securities Agent, and Uniform Investment Advisor.

JEFF DOWNEY

Executive VP Business Development & Operations - Mr. Downey has been with Quest since its inception. He has successfully led the company's business operations start-up efforts, including required implementation of resources, processes, and technology to initialize and stabilize Quest's operations. Mr. Downey is currently leading the company's expansion to 500-1000 BOED daily production levels and has already exceeded Quest's operational break-even of 200 BOED. Mr. Downey received a Masters of Agri-Business Management degree from University of Florida in 1998. Prior to his Master's degree, he received a Bachelor's of Science in Food & Resource Economics in 1997. After graduate school, Mr. Downey worked in the energy industry for 8 years as a Senior Market Research Analyst and Product Developer for both TXU and Florida Power & Light Co. During his tenure he managed successful new technology product launches and over $5MM in market research efforts, impacting over 4 MM customers.

JAIME LYNNE DOWNEY

Director of Land and Legal - Ms. Downey is a licensed Real Estate Broker in the State of Florida and holds a Bachelor of Arts Degree from the University of Florida. Ms. Downey will also be Quest's liaison for 1031 exchange transactions. Prior to working for Quest, Ms. Downey was a project manager and consultant for Premier Developer Services in Naples, FL. She oversaw development of large and small scale real estate development including land use and planning as well as sales and marketing for over $500 million in projects. Prior to her real estate experience, Ms. Downey worked in client relations and public relations for 5 years.

KENNITH SPURGIN

Drilling & Production Superintendent - Mr. Spurgin has been in the Petroleum drilling and production business for over 45 years. He has worked oil and gas production fields throughout Texas and Louisiana for Van Operating (formerly The Jones Company) - initially as a roustabout, working his way up to a Production Manager and then Production Superintendent. Mr. Spurgin has also owned and operated his own service company as well as his own production.

JON SPURGIN

Production Supervisor - Mr. Spurgin has over 25 years experience in the Petroleum drilling and production business. He has worked oil and gas production fields throughout Texas for Halliburton and Gulf Oil - initially as a roustabout, working his way up to a Production Manager and then Production Supervisor. In these roles, Mr. Spurgin has designed and installed tank batteries, operated kill trucks, and supervised fracing, acidizing and cementing operations.

6.3. Outside Consultants

STEPHENS ENGINEERING

Petroleum Engineering Consultant - Fred Stephens, President, Stephens Engineering, Petroleum Engineering Consultants, is widely considered the expert on water flood engineering in Texas. Stephens has over 50 years experience designing water floods and designed several Cross Cut and Caddo floods in the Eastern Shelf area, including the successful Herr-King Unit Cross Cut flood and several successful Caddo floods in the Breckenridge area.

DAVID HOLLEY

Consulting Geologist - Mr. Holley received his degree in Geology from Hardin Simmons University. He has been a practicing Geologist for the past 26 years and is licensed by the State of Texas. He is a member of the American Association of Petroleum Geologists, and a past President of the Abilene Geological Society.

H.D. (DON) BUTTER

Operations & Engineering Consultant - Mr. Butter has over 45 years worldwide experience in operations, engineering, business development and business unit management with a number of operating companies involved in chemicals, integrated oil and natural gas and electric power development. He has spent most of the last 41 years working for ConocoPhillips variously in chemicals, refining, natural gas, crude oil gathering and gauging, including responsibility for Conoco's worldwide petroleum coke activities.

ARTHUR MELLEN

Consultant – Mr. Mellen has 45 years experience in the energy, chemical and environmental industries. He is a former executive of Air Products & Chemicals, Inc., where he had various senior roles as head of several divisions, including Chairman and President of a $1 billion affiliate, which he expanded from $30 million to $300 million in revenue.

GEORGE SEXTON

Industry Consultant - Mr. Sexton worked for Betz Laboratories for over 30 years selling Betz services to major petroleum refining and chemical companies, establishing and improving relationships with industry trade associations and federal regulatory agencies.

6.4. References and Strategic Partnerships

The following are Quest's references and strategic partners:

- First National Bank of Albany – Randall Palmore – President
- Cotter, Neff & Associates – Mike Cotter – CPA
- Beckham, Rector & Eargle, LLP Attorney's and Counselors, Board Certified in Oil, Gas & Mineral Law – John L. Beckham – Partner
- RFW Petroleum – Richard Whipple – Certified Professional Landman
- Viking Oil & Gas, LLC – Neil and Chris Moody – Principal Equity Partner
- Van Operating, LTD – A.V. Jones Jr. - Chariman
- Commercial Properties Of SW Florida – David Wallace –CCIM
- Centergy Advisors – Jon Dormer – President
- Trans Ionics – Dr. Robert Schucker – President
- Ernst & Young – Susan Thibodeaux
- Gibraltar Energy – Karl Lievense – President

6.5. Management Team Expansion Plans

The Executive Committee is currently in place with industry experts and executives to provide strategic direction for Quest. The committee will continue to expand as needed. The Operations Management Team will need to grow to accommodate the company's plans. The current management team is sufficient to achieve the Phase 1 expansion goal of 500-1,000 BOED daily production. However, in order to support second phase of expansion to 2,500-3,500 BOED daily production, Quest will need to hire a CFO. Quest may consider outsourcing the CFO role for the initial two phases. Quest will work with strategic partnerships and outside consultants to address interim needs until permanent staff is hired to fill organizational needs.

6.6. Personnel Plan

Currently, there are eleven employees in the organization. This structure will support the first phase of expansion to 500-1,000 BOED by Q3-2008. This organization will need to grow from eleven to twenty employees to support the second phase of expansion to 2,500-3,500 BOED by Q3-2009. In order to support planned production for Phase 3, 25,000-35,000 BOED by Q4-2012, the organization will need to grow to approximately 140 employees. The following is the chart that shows the personnel growth requirements and respective annual labor costs required to support the six year plan.

Personnel Plan

	2007		2008		2009		2010		2011		2012	
STAFF	#	$	#	$	#	$	#	$	#	$	#	$
Officers	3	$ 540,000	4	$ 720,000	5	$ 1,000,000	5	$ 1,000,000	6	$ 1,320,000	6	$ 1,320,000
Admin	1	$ 35,000	3	$ 105,000	4	$ 140,000	5	$ 200,000	5	$ 200,000	7	$ 280,000
Technical	0	$ -	2	$ 240,000	3	$ 360,000	4	$ 480,000	5	$ 600,000	6	$ 720,000
Outside Consultants		$ 50,000		$ 100,000		$ 120,000		$ 150,000		$ 170,000		$ 185,000
FIELD												
Director	0		0		0		1	$140,000	1	$140,000	1	$150,000
Superintendents	1	$ 114,000	1	$ 114,000	2	$ 228,000	3	$ 342,000	3	$ 342,000	4	$ 456,000
Supervisors	1	$ 102,000	2	$ 204,000	4	$ 408,000	6	$ 612,000	9	$ 918,000	10	$ 1,020,000
managers	2	$ 108,000	3	$ 162,000	6	$ 324,000	18	$ 972,000	30	$ 1,620,000	35	$ 1,890,000
Pumpers	3	$ 144,000	5	$ 240,000	12	$ 576,000	36	$ 1,728,000	60	$ 2,880,000	72	$ 3,456,000
	11	$ 1,093,000	20	$ 1,885,000	36	$ 3,156,000	78	$ 5,624,000	119	$ 8,190,000	141	$ 9,477,000

7. Financial Plan

The financial plan supports the achievement of Quest's six year goal in three phases. It contains revenue, operational, and capital expense projections based on anticipated production and planned capital investments required to achieve its expansion goals. This plan is expected to require approximately $611MM in capital in order to realize projected results of almost $300MM in free (and escalating) annual cash-flow by end of 2013 with a projected yield of 84% IRR over the next six years. After the five year expansion, Quest will target introducing its IPO with an expected market capitalization of $6.2B-$8.7B – based on Wall Street valuations of Oil & Gas companies issuing IPO's over the past two years 2004-2006, or $250,000 per BOED.

Although market prices are currently higher than EIA's conservative projections and some industry experts expect escalating oil prices, Quest has applied conservative estimates to their financial projections in this business plan.

7.1. Capital Requirements

In order to support Quest's six year expansion plans, Quest will require approximately $611MM in capital. This includes approximately $200MM from reinvested capital and $350MM-$400MM from investors/lenders. In order to support the first phase expansion to 500-1,000 BOED, Quest will seek $5MM in capital. Quest will require an additional $60MM funding required for the second expansion to 2,500-3,500 BOED and $350MM-$400MM (with over $200MM for new acquisitions with upside potential) will be required for the third expansion to achieve the 25,000-35,000 BOED. Based on market conditions, Quest will consider flexible and competitive options to obtain required capital, such as corporate debt financing, 1031 Real Estate Exchanges, and/or private MLPs with buying equity positions in the projects, containing upside kickers on conversion rights.

7.2. Important Assumptions

The following are the key assumptions used for financial projections:

- Pricing based on $55/BBL for first year growing at 3% for the next two years and leveling out at $60/BBL for the remaining 4 years
- Tax rate calculated at 35% - both Federal and Capital Gains
- Debt calculated at 8% with a 2% financing fee
- For Phase II financing, assumed 25% working interest was sold
- Phase II, 25% working interest to be re-purchased with Phase III financing

7.3. Projected Profit and Loss

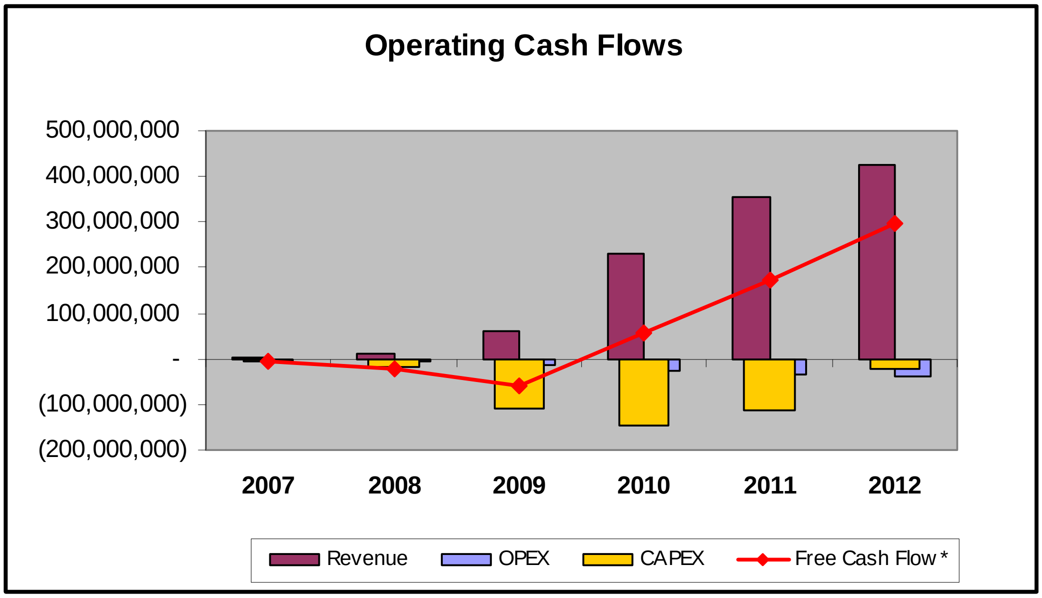
Quest's six year plan is expected to grow revenue from $1.1MM in 2007 to $427MM in 2012 based on projected production levels per the plan. This will require approximately $611MM in capital investment, which will enable Quest to achieve $28.3MM in net income after tax by end of 2010. Net income after taxes is projected to grow to $119MM by end of 2012, representing a growth of almost four times in net profitability over the last three years of the expansion plan.

Income Statement

	31 Dec '07	31 Dec '08	31 Dec '09	31 Dec '10	31 Dec '11	31 Dec '12
Revenue	$ 1,150,657	$ 10,126,122	$ 59,984,588	$ 231,077,917	$ 356,730,941	$ 427,352,899
OPEX	$ (2,069,196)	$ (6,485,180)	$ (14,831,873)	$ (26,229,670)	$ (33,653,546)	$ (37,449,586)
Tax DD&A	$ (6,253,419)	$ (18,489,388)	$ (68,738,013)	$ (175,274,781)	$ (218,893,283)	$ (199,044,655)
Interest	$ (438,786)	$ (3,964,272)	$ (4,980,000)	$ (5,080,000)	$ (5,080,000)	$ (5,080,000)
Tax	$ -	$ -	$ 6,788,548	$ 3,849,372	$ (35,330,616)	$ (66,230,091)
Income After Tax	$ (7,610,744)	$ (18,812,718)	$ (21,776,750)	$ 28,342,837	$ 63,773,496	$ 119,548,566

7.4. Projected Cash Flow

The plan will require almost $611MM in capital. This includes approximately $200MM from reinvested capital and $350MM-$400MM from investors. Quest's six year plan is expected to break-even on cash-flow by Q4-2010. This will result in exponential revenue growth due to increased production projections from capital investments. The results of this plan are projected to yield an 84% IRR over the next six years with almost $300MM in free (and escalating) annual cash-flow by end of 2012. After the five year expansion, Quest will target introducing its IPO with an expected market capitalization of $6.2B-$8.7B.



Cash Flow	31 Dec '07	31 Dec '08	31 Dec '09	31 Dec '10	31 Dec '11	31 Dec '12
Cash Flow						
Cash from Operating	$ (1,357,325)	$ (323,330)	$ 46,961,263	$ 203,617,618	$ 282,666,779	$ 318,593,221
Acquisition of Assets	$ (4,100,000)	$ -	$ (97,500,000)	$ (67,500,000)	$ (32,000,000)	$ -
CAPEX	$ (4,625,000)	$ (19,585,000)	$ (107,375,000)	$ (146,225,000)	$ (111,250,000)	$ (20,550,000)
Sale of Assets	$ -	$ -	$ -	$ -	$ -	$ -
Cash from Financing	$ 7,500,000	$ 42,413,493	$ 146,000,000	$ 120,000,000	$ 100,000,000	$ 13,000,000
Net Cash Flow	$ (2,582,325)	$ 22,505,163	$ (11,913,737)	$ 109,892,618	$ 239,416,779	$ 311,043,221
Free Cash Flow*	$ (5,982,325)	$ (19,908,330)	$ (60,413,737)	$ 57,392,618	$ 171,416,779	$ 298,043,221

7.5. Projected Balance Sheet

Quest projects a positive equity position in 2009 with a positive net worth of $85.6MM. Net Worth is projected to grow to $530MM by end of 2012, representing a growth of over six times over the last four years of the plan. After the six year expansion, Quest will target introducing its IPO with an expected market capitalization of $6.2B-$8.7B.

Balance Sheet						
	31 Dec '07	31 Dec '08	31 Dec '09	31 Dec '10	31 Dec '11	31 Dec '12
Cash	$ (198,989,233)	$ (176,484,070)	$ (90,897,806)	$ 86,494,812	$ 357,911,591	$ 668,954,812
Assets (Tax Basis)	$ 202,035,272	$ 203,130,884	$ 544,417,673	$ 515,367,892	$ 407,724,609	$ 229,229,954
Total Assets	$ 3,046,039	$ 26,646,814	$ 453,519,867	$ 601,862,704	$ 765,636,200	$ 898,184,766
Deferred Charges	$ -	$ -	$ 302,649,802	$ 302,649,802	$ 302,649,802	$ 302,649,802
Other Current Liabilities	$ 1,731,547	$ 1,731,547	$ 1,731,547	$ 1,731,547	$ 1,731,547	$ 1,731,547
Debt	$ 5,086,507	$ 47,500,000	$ 63,500,000	$ 63,500,000	$ 63,500,000	$ 63,500,000
Equity	$ (3,772,014)	$ (22,584,732)	$ 85,638,518	$ 233,981,355	$ 397,754,851	$ 530,303,417
Total Equity & Liabilities	$ 3,046,039	$ 26,646,814	$ 453,519,867	$ 601,862,704	$ 765,636,200	$ 898,184,766

8. Glossary

- BOED – Barrels of Oil Equivalent per Day – this is a conversion of gas production to equivalent barrels of oil to standardize financial figures
- MCF – Thousand Cubic Feet of gas
- MCFD – Thousand Cubic Feet of gas per Day
- BBL – Barrel of oil – 42 gallons
- BOD – Barrels of Oil per Day
- EOR – Enhanced Oil Recovery – class of technologies that increase the oil recovery rates, typically in secondary or tertiary recovery

FOR ADDITIONAL INFORMATION PLEASE CONTACT JEFF DOWNEY

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ALBANY, TEXAS. 76430
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(325) 762-3284 (FAX)
JEFF.DOWNEY@QUESTEMG.COM

FactRight™ LLC

Due Diligence Report

QUEST ENERGY MANAGEMENT GROUP INCORPORATED

Offering	**Limited Partnership Units in Permian Advanced Oil Recovery Investment Fund II, LP**
Well Locations	**Texas**
Prepared by	**FactRight, LLC**
Date	**February 5, 2010**

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FactRight LLC

FactRight, LLC is a Due Diligence service provider to the Reg D Securities marketplace. In addition to our subscription abstracting service, education and training, FactRight also provides in-depth individual reports on offerings and sponsors.

As each sponsor relies on expertise from professionals to syndicate an offering to the public, FactRight, LLC relies on its professionals from each of these disciplines to evaluate the offerings and the sponsors in compiling our reports. Accordingly, our group of real estate, legal, securities and business experts along with our outside independent CPAs bring their expertise to bear on each and every report that we generate.

Use of this Report

Due diligence analysis is an attempt to determine if there are areas of concern that indicate potential issues or higher than average risks inherent in a particular product or its sponsor. Each product and each sponsor has potential risks. Highlighting those risks does not necessarily mean that a product or a sponsor should be abandoned. Proactive sponsors can capitalize on their business strengths and produce successful products, while sponsors with operational issues could undermine the success of an exceptional product. Also, particularly positive attributes of a sponsor or product do not guarantee the success of the investment. As a result, it is important to understand the weaknesses and strengths of both the sponsor and the product through a comprehensive due diligence process.

In the due diligence process, it is important to have a three-prong approach to analysis. One prong is to understand the operation, strength and performance of the sponsor offering the product. The second prong is to thoroughly analyze the product being offered by that sponsor. This report focuses on the product. Sponsor reports may also be available upon request.

The third and critical prong of due diligence is the suitability of the investor as it relates to the product provided by the sponsor. That prong is not addressed by FactRight, LLC nor by the information provided by FactRight, LLC. Determination of suitability is the responsibility of the registered representative and their broker dealer based upon their own internal and external procedures and policies. The information provided herein is intended to augment the reader's due diligence, not replace it. This should not be the sole source upon which product and sponsor decisions are made.

Scope of the Report

This report is designed to be a complete, yet cost effective and efficient tool for the reader to utilize in gathering information on the offering. The report is not intended for use by investors, but by the financial professionals who give investment advice. Further information on the sponsor and on the product may be available through other independent sources or in a FactRight, LLC Sponsor report. If the reader would like FactRight, LLC to obtain additional information or provide a more in-depth review than what has been provided in this report or on the website, terms and parameters can be discussed by contacting the FactRight, LLC corporate office.

You are receiving this report pursuant to your request and are deemed to be a client of FactRight, LLC for this limited purpose. By accepting this report, you acknowledge that we may perform similar due diligence reporting functions for other broker dealers, lenders, investment professionals and industry advisors and you agree to waive any conflict, real or perceived, that this may potentially create. If you do not agree, please return this report to FactRight, LLC at 105 Fifth Ave. S #300, Minneapolis, MN 55401.

Documents Reviewed

The following documents were reviewed in the preparation of this report:

1. Confidential Private Placement Memorandum dated February 1, 2010
2. Quest Energy Management Group, Inc. Business Plan 2009-2015
3. Agreement of Limited Partnership of Permian Advanced Oil Recovery Investment Fund, L.P., dated February 1, 2010
4. Waterflood study, dated September 1, 2007
5. Various Leases, Lease Assignments, and Title Opinions
6. Memorandum of Understanding between Quest Energy management Group, Inc. and Viking Oil & Gas, LLC, dated April 4, 2007
7. Broker Dealer Selling Agreement
8. Shackelford Gas System Gas Purchase Agreement, dated April 1, 1999
9. Certificate of Filing of Permian Advanced Oil Recovery Investment Fund II, LP
10. Subscription Documents
    a. Subscription Agreement
    b. Investor Suitability Questionnaire

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Executive Summary

Overview

Quest Energy Management Group, Inc. (the "Sponsor" or "Quest"), a Delaware Corporation formed in 2005, is offering limited partnership units (the "Units") in the Permian Advanced Oil Recovery Investment Fund II, LP (the "Partnership") to accredited investors (the "Investors") pursuant to a confidential private placement memorandum (the "PPM"). The Partnership intends to acquire varying amounts of working interest in oil and gas leases in Texas on which waterfloods will be used to increase production on existing wells and up to 16 new wells (collectively, the "Program Wells") will be drilled, of which 10 will be producing wells and six will be water injection wells. The Program Wells will be located on four parcels of oil and gas producing land located in West Central Texas that are at or near the end of their primary production life.

> NOTE: Waterflooding is a method of secondary recovery in which water is injected into an oil reservoir in order to force additional oil out of the reservoir and into the nearby production well. According to the Sponsor, it uses a proprietary technology called the Velocity Induced Cavitation Reactor ("VICR"), which is supposed to enhance the sweep efficiency of the water injected and allows more water to be injected, which can then increase production rates.

The terms of the offering are as follows:

- Maximum of 348 limited partnership Units for a total offering of $34,800,000 ($100,000 per Unit)
- Minimum purchase is one Unit, or $100,000
- Investors will become limited partners of the Partnership
- The offering will terminate upon the sale of 348 Units or December 15, 2010, whichever occurs earlier
- The offering proceeds will be raised in three $11,600,000 stages, with operations of the Partnership commencing once subscriptions totaling $11,600,000 have been received
    - Investors become active limited partners of the Partnership upon the closing of the applicable stage of the offering
- 100.0% of available tax benefits are expected to be passed through to Investors throughout the life of the Partnership

The Program Wells:

- Five Program Wells located in Brown County, Texas that will access the Cross Cut Sand ("Cross Cut") and Caddo formations (the "Kilgore Ranch Property")
    - The Partnership is expected to acquire a working interest in the Kilgore Ranch Property from the Sponsor that will vary as follows:
        - 60% carried working interest until payout
        - 40% standard working interest until Investors have received an additional 50% return
        - 20% standard working interest thereafter

NOTE: Payout refers to the point in time when Investors have received aggregate distributions equal to their initial capital contributions.

- Two Program Wells located in Caldwell and Guadalupe Counties, Texas that will access the Austin Chalk ("KPC Property")

  NOTE: The KPC Property also covers the Edwards formation, but the Partnership does not expect to access it under its current development plan. The Edwards formation may be developed at some point in the future.

  - The Partnership is expected to acquire a working interest in the KPC Property from the Sponsor that will vary as follows:
    - 60% carried working interest until payout
    - 40% standard working interest until Investors have received an additional 50% return
    - 20% standard working interest thereafter
- Three Program Wells located in Callahan County, Texas that will access the Cross Cut (the Snyder Ranch Property")

  NOTE: Similar to the KPC Property, the Snyder Ranch Property covers other formations in addition to the Cross Cut Sand that the Partnership is not expected to access under its current development plan. The other formations include the Lake Sand and Conglomerate, which may be developed at some point in the future.

  - The Partnership is expected to acquire a working interest in the Snyder Ranch Property from the Sponsor that will vary as follows:
    - 60% carried working interest until payout
    - 40% standard working interest until Investors have received an additional 50% return
    - 20% standard working interest thereafter
- Six Program Wells located in Shackelford County, Texas that will access the Caddo formation (the "MCU Property," or collectively with the KPC Property, Snyder Ranch Property, and Kilgore Ranch Property, the "Properties")

  NOTE: The MCU Property also covers the Jennings Sand formation. The Sponsor has indicated that it will be developing three Jennings Sand gas wells as part of its advanced oil recovery, but these are not Program Wells.

  - The Partnership is expected to acquire a working interest in the MCU Property from the Sponsor that will vary as follows:
    - 60% carried working interest until payout
    - 40% standard working interest until Investors have received an additional 50% return
    - 20% standard working interest thereafter
- The Sponsor will serve as operator of all Program Wells.

NOTE: The planned development of the Program Wells with the proceeds from this offering is a part of the Sponsor's larger plan to fully develop the Properties. This additional development will be accomplished with funds raised through other offerings and a financial contribution from the Sponsor. The Sponsor is currently raising $11,000,000 through the sale of 22 partnership units in the Permian Advanced Oil Recovery Investment Fund I, LP ("AOR I"). The investors of AOR I have an equity interest in the revenue generated by the development of wells on the Properties and an equity interest in the Sponsor. In the final stage of the Sponsor's plan, the Sponsor is expected to contribute $15,000,000 towards the development of wells on the Properties. The PPM states that the Sponsor will obtain this $15,000,000 through the sale of shares of the Sponsor and working interest; however, it does not specify what working interest the Sponsor will sell or the details of any stock offering in the Sponsor.

<u>Conclusion</u>: Oil and gas investments can be very risky, with the level of risk determined by the type of investment program. One of the key strengths of this offering is the fact that it is a developmental drilling program, meaning that the Program Wells will be drilled in proven areas. In addition, the Program Wells are expected to be developed with waterfloods, a technique that has been shown to improve production levels. Other key strengths include favorable data from offset wells like those owned and operated by BASA Resources, which have demonstrated that waterfloods of the Caddo Lime can be successful. The experience of the Sponsor as an operator of the Properties is another strength that should be noted, as familiarity with the Properties could bode well for their future performance. Finally, there is considerable expense associated with the use of waterfloods as a secondary recovery technique; thus Investors may have the benefit of substantial intangible drilling cost deductions and, if the Program Wells are commercially productive, a depletion allowance. With that said, there are certain key risks that should be noted. First, the lack of engineering reports on three of the four Properties is a risk since the Sponsor's projections cannot be verified. Another key risk includes the indebtedness currently encumbering the Sponsor's working interest in the MCU Property. There are currently four liens on the working interest in the MCU Property. Two of the liens total $103,000 and are not a liability of the Sponsor; rather, the liens are a liability of the seller since the lease assignment states that the Sponsor was receiving marketable title free of such liens. The other two liens are secured debts that are liabilities of the Sponsor and had original balances of $600,000 and $832,000. The Sponsor reports that both debts have been paid down to approximately $250,000 and $625,000, respectively. Since there is an assignment of revenues that is attached to these two encumbrances, cash flows that would otherwise go to the Investors could be diverted to the lender. A reduction in cash flow to Investors could make it more difficult for Investors to recover 100% of their initial investment or at least prolong the length of time it takes to fully recover their initial investment. However, the Sponsor reports that no revenue is being diverted as a result of the assignments of revenues. In addition, the Sponsor provided a letter from First National Bank in Albany, Texas, the lender of the $600,000 debt, stating that the Sponsor is current on all loans held with that bank. Other key risks include the potential commingling of Investor funds and revenue from the

Program Wells, and the potential for waterflooding issues that cause the Program Wells to produce secondary reserves insufficient for Investors to recover 100.0% of their initial investment.

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Deal Summary

The following table summarizes the key deal terms:

Product Information			
Legal Structure	Limited Partnership	Total Offering Amount	$34,800,000
Sector	Oil & Gas	Lease Acquisition Price	$8,000,000
Interest Type	Working Interests	Drilling Costs& Working Capital	$22,900,000
Sponsor's Projected Production Levels	Oil: 1,206,900 BBL Natural Gas: 3,618,890 MCF	Minimum Equity	$100,000
Operators	Quest Energy Management Group, Inc.	Load	12.51%
		Number of Wells	16
Location	Shackelford County, Texas Brown County, Texas Callahan County, Texas Caldwell County, Texas Guadalupe County, Texas	Management Comp	Working Interest that will range from 40-80% based on the amount of distributions Investors have received
Deal Team			
Sponsor Name	Quest Energy Management Group, Inc.	Managing BD Name	Workman Securities Corporation
Sponsor Address	64 South Jacobs Street	Managing BD Address	6500 City West Pkwy, Suite 350
Sponsor City	Albany	Managing BD City	Eden Prairie
Sponsor State	Texas	Managing BD State	Minnesota
Sponsor Zip	76430	Managing BD Zip	55344
Sponsor Phone	(325) 762-3281	Managing BD Phone	(800) 225-6465
Sponsor Email	-	Managing BD Email	-
Fees & Commissions			
BD Commissions	Up to 7.0%	Managing BD Fee (Wholesaling Fee)	1.0%
Sponsor Acquisition Fee	1.3%	Marketing & Due Diligence	2.0%
Organization & Offering	1.21%	General & Administrative Expenses	None
Commodities Pricing			
Oil Price/bbl (1/22/2010)	$ 74.54	Natural Gas Price/Mcf (1/22/2010)	$ 5.82
3-Month Average	$ 77.37	3-Month Average	$ 5.29
52-Week High	$ 83.25 (January '10)	52-Week High	$ 6.00 (January '10)
52-Week Low	$ 33.85 (February '09)	52-Week Low	$ 2.50 (September '09)

*Mcf= thousand cubic feet of gas; BBL = barrels

Compensation to Sponsor

Fees and reimbursements payable to the Sponsor, their affiliates, and the Managing Broker Dealer consist of the following:

Offering and Organization Stage

Reimbursement of Organizational and Offering Expenses: The Sponsor will receive 1.21% of the offering proceeds, or $420,000, on a non-accountable basis, for all costs and expenses incurred by the Sponsor in connection with the organization of the Partnership and the offering of the Units.

Sales Commissions, Fees and Costs Reimbursement Paid to FINRA Broker Dealers: Licensed broker dealers that are members of FINRA and have a selling agreement with the Partnership (the "Selling Group") will sell the Units. Workman Securities Corporation will serve as the managing broker dealer (the "Managing Broker Dealer") of this offering and will receive 10.0% of the offering proceeds, which breaks down as follows:

- 7.0% sales commission (or $2,436,000 for the maximum offering)
- 2.0% non-accountable marketing and due diligence fee (or $696,000)
- 1.0% wholesaling fee (or $348,000)

The sales commission and wholesaling fee may be reallowed to the Selling Group.

Mark-up/Acquisition Fee: The Sponsor will receive an acquisition fee of more than $441,200 upon the Partnership's purchase of a 60% working interest in the Properties. The Sponsor acquired 100% of the working interest in the KPC and the Snyder Ranch Properties and 50% in the MCU and Kilgore Ranch Properties for approximately $3,558,800 while the Partnership will only be acquiring 60% of the working interest, although it will be a carried working interest, acquired by the Sponsor for $4,000,000.

> NOTE: The remaining 50% working interest in the MCU and Kilgore Ranch Properties will be acquired through the execution of an option agreement for $4,000,000. A review of the agreement does not indicate a mark-up on the execution of the option agreement.

Operational Stage

Back-in Working Interest: The Sponsor will receive a 20% back-in working interest after payout, which will increase to a 40% working interest after Investors have received 150% of their initial capital contributions. This is in addition to the 40% working interest that the Sponsor retains on the front end of the investment.

Operating Costs: The Sponsor will be compensated for serving as the operator of the Program Wells. The Sponsor does not indicate in the PPM whether the cost estimate for drilling, completion and other well operations are non-accountable. If they are non-accountable and operations cost less than the Sponsor's estimates, then the Sponsor's compensation may be much higher than indicated above since it would retain any difference between estimated and actual cost.

Liquidation Stage

The Sponsor does not specify an exit strategy in the PPM or limited partnership agreement. However, the limited partnership agreement does refer to the Sponsor receiving distributions equal to its positive capital account balance, but the Sponsor has yet to make any capital contributions to the Partnership.

Sources and Uses of Funds

The following is a summary of the Sources and Uses of Funds:

Sources			Uses		
Offering Proceeds	$34,800,000	100.0%	Organization and Offering Expenses	$ 420,000	1.21%
			Selling Commissions	$ 3,480,000	10.00%
			Working Capital	$ 920,114	2.64%
			Acquisition of Working Interests	$ 8,000,000	22.99%
			Drilling, Completion & Other Well Operations (including infrastructure)	$ 21,979,886	63.16%
Total Sources	**$34,800,000**	**100.0%**	**Total Uses**	**$ 34,800,000**	**100.0%**

Sponsor

The Sponsor, Quest Energy Management Group, Inc., is a Delaware corporation formed in 2005 for the purpose of managing the completion of water flood projects in Texas. The Sponsor currently owns and operates oil and gas leases in Brown, Caldwell, Callahan, Guadalupe, and Shackelford Counties in the state of Texas. Prior to the Partnership, Quest has sponsored two other offerings, both of which were related to the development of the Properties. One was an offering of senior corporate notes and the other was the Permian Advanced Oil Recovery Investment Fund I. The senior corporate notes offering is still open and is expected to close in March 2010. The Permian Advanced Oil Recovery Investment Fund I offering is also still open and is expected to close in the second quarter of 2010. Paul Downey serves as its Chief Executive Officer and President of the Sponsor. He has been working in the petroleum and energy industries since the 1960s. Mr. Paul Downey has 12 years of experience as a field geologist and has worked on various technology evaluations and research and development projects, consulted on oil and gas development, and owned and operated an oil and gas production company in the Appalachian Basin. Jeff Downey serves as the Sponsor's Chief Operating Officer. Prior to joining the Sponsor in 2005, Mr. Jeff Downey was a senior marketing analyst for Research and Development at TXU Energy and a Senior Residential Marketing Analyst for Florida Power & Light. Antonie "Wobbe" Ploegsma III serves as the Sponsor's Chief Financial Officer. Prior to joining Quest in

January of 2010, Mr. Ploegsma worked as an investment banking analyst for Growth Capital Partners, LP's energy group while also independently consulting for Total Safety U.S., Inc. and the Sponsor. In addition, Mr. Ploegsma has been an equity trader for RBC Professional Trading Group and an executive compensation analyst for Pearl Meyer & Partners, LLC.

Executive Committee

The Sponsor has an executive committee comprised of four individuals in addition to Mr. Paul Downey and Mr. Jeff Downey. These individuals include W.E. "Bill" Booker, Dr. Robert Shucker, David Bat, and Homer Hershey. The PPM states that Mr. Bill Booker has worked in the petroleum industry for approximately 47 years. He has served as president and chief executive officer of two drilling companies and president of Weatherford International, a provider of oil field production technology and services. Dr. Robert Schucker has more than 30 years of experience in the petroleum industry, focusing on petroleum processing and separation-based technology. Mr. David Bat has more than 20 years of experience in the petroleum and energy industries. He is currently president of Welling & Company, an energy industry consulting firm, and has previously served on management committees for World Energy Solutions, Constellation New Energy, and Chevron Energy Solutions. Finally, Mr. Homer Hershey has been in the petroleum industry for a number of years, previously working for Shell for 18 years before becoming president of Mitchell Energy Development Corporation and then senior vice president of production. According to the Sponsor, the executive committee provides guidance in the Sponsor's development and is a key element of its continuity plan in the event Mr. Paul Downey could no longer serve as Chief Executive Officer and President.

Operators

An operating agreement executed between the well operator, Quest, and the Partnership will govern the operation of the Program Wells. As the operator, Quest will be responsible for the drilling, completion and operation of the wells. Thus, success of the investment critically depends on the experience and competency of the Quest.

Quest Energy Management

The Sponsor is currently the operator of all the Properties and will serve as operator of the Program Wells. It has owned a working interest in three of the Properties (Kilgore Ranch Property, Snyder Ranch Property, and KCP Property) since 2006 and one (MCU Property) since 2007.

According to the records of the Texas Railroad Commission, Quest has produced 8,181 BBL of oil, 129, and 129,236 MCF of casinghead gas, and 12,959 MCF of gas well gas from the MCU Property since February 2007. In addition, the Texas Railroad Commission database indicates that Quest has not produced any oil or natural gas from the Snyder Ranch Property. Since mid-2006, Quest has produced a total of 18,855 BBL of oil from wells located on the Kilgore Property and 19,310 BBL of oil and 15,615 MCF of casinghead gas from wells located on the KPC Property.

NOTE: A representative of the Texas Railroad Commission stated that all of its data comes from monthly reporting required of operators. Thus, any inaccuracies in data would be due to the reporting by the operator.

Operating Agreements

The Sponsor has reported that it does not have an operating agreement for the Partnership, but in the past has used the Council of Petroleum Accountants Societies, Inc. ("COPAS") or the American Association of Professional Landmen ("AAPL") standard agreements.

Well Descriptions & Analysis of Production Potential

MCU Property

The MCU Property is an approximately 3,386-acre oil and gas producing property located in Shakelford County, Texas. A review of the MCU Property lease assignment revealed that the Sponsor acquired its interest in the MCU Property on April 1, 2006 from Premiere Consolidated Oil and Gas, LLC. The drilling operations on the MCU Property will target the Caddo Lime Reservoir (the "Caddo Lime"), which has been estimated to have 13,397,485 barrels of oil in place. According to an engineering report (the "Engineering Report") produced by Stephens Engineering in Wichita Falls, Texas, dated September 1, 2007, the Caddo Lime has five porous units known as Zone "A" through "E." Zone "D" is the target for the MCU Property since it has produced a majority of the oil from the MCU Property and the surrounding area. Primary recovery from Zone "D" of the Caddo Lime was 1,352,292 (meaning there are no primary reserves left to recover). According to Stephens Engineering, the Caddo Lime Zone "D" secondary recovery reserves are estimated to be 1,653,975. The Sponsor expects to drill six Program Wells on the MCU Property, of which two will be water injection wells and four will be production wells. In addition, three gas wells will be drilled on the MCU Property that will access the Jennings Sand formation; however, these Jennings Sand gas wells will not be developed using waterfloods like the Program Wells. It should also be noted that the MCU Property can also produce from the Moran and Doss formation. According to the Engineering Report, the MCU Property has approximately 2,378,367 MCF of gas reserves. According to the Sponsor, cumulative production from the MCU Property is 1,352,292 barrels of oil, with 12,045,193 remaining barrels of oil in place.

NOTE: Oil in place refers to the total hydrocarbon content of an oil reservoir before the start of production. This differs from oil reserves, which refers the oil that is technically and economically recoverable from the reservoir.

The Sponsor currently owns 50.0% of the working interest in the MCU Property and has an exclusive option to acquire the remaining 50.0% working interest. The expectation is that a portion of the offering proceeds will be used to acquire this remaining 50.0% interest. The Sponsor reports that the net revenue interest in the MCU Property is 78.64%, after the other 50.0% working interest is acquired. The Partnership is then expected to acquire from the Sponsor a 60.0% carried working interest in the MCU Property. This 60.0% carried working interest will become a 40.0% standard working interest when Investors have recovered 100% of their initial capital contributions, and then a 20.0% standard working interest once Investors have recovered 150% of their initial capital contributions.

> NOTE: In reviewing the title opinion for the MCU Property, we learned that the lease on the MCU Property is encumbered by four liens. Two of the liens are liabilities of the parties that sold the working interest in the MCU Property to the Sponsor. Two of the liens are secured debts that are liabilities of the Sponsor and had original balances of $600,000 and $832,000. The Sponsor reports that both debts have been paid down to approximately $250,000 and $625,000, respectively. Since there is an assignment of revenues that is attached to these two encumbrances, cash flows that would otherwise go to the Investors could be diverted to the lender. A reduction in cash flow to Investors could make it more difficult for Investors to recover 100% of their initial investment or at least prolong the length of time it takes to fully recover their initial investment. However, the Sponsor reports that no revenue is being diverted as a result of the assignments of revenues. In addition, the Sponsor provided a letter from First National Bank in Albany, Texas, the lender of the $600,000 debt, stating that the Sponsor is current on all loans held with that bank. The MCU property title opinion also noted another potential concern regarding the Sponsor's working interest ownership. The attorney that drafted the title opinion stated that he was aware of some disputes between Quest and the Lessors/Assignors regarding operating matters; however, counsel for both sides represented that they are not aware of any dispute as to the continuing existence of the base oil and gas lease as it pertains to shallow gas production. With that said, the Sponsor has indicated that it had a dispute with one of the 105 mineral owners of the MCU Property.

> NOTE: We reviewed a written agreement between Quest and Viking Oil & Gas, LLC ("Viking") pursuant to which Quest conveyed to Viking 10.0% of its working interest in the Silverado #1. The Sponsor has represented that the Silverado #1 is the Kilgore Ranch Property and the MCU Property, together. With the additional 10.0% working interest, Viking owned a 50.0% working interest in the Silverado #1. The agreement also provides for the repurchase of Viking's 50.0% working interest for $4,000,000 plus 40.0% equity ownership in Quest upon Quest's receipt of $60 million in funding.

The Sponsor has in place one gas purchase agreement that provides for the purchase of gas produced from the Program Wells on the MCU Property. According to the terms of this gas purchase agreement and its amendments, DGP Taurus Field Service, L.P. ("DGP Taurus") is the buyer and will pay 87% of the total plant product value.

> NOTE: The total plant product value is calculated by multiplying the gallons of the plant products by the applicable price per gallon, which is the price DGP Taurus receives when it sells the gas after certain adjustments are made for transportation, storage, and other costs.

According to an amendment to the purchase agreement, DGP Taurus is required to pay an additional $0.16 per MCF for each MCF delivered to its meter station as compensation for gas compression and other services necessary in order to effectuate delivery. DGP Taurus is only required to accept gas deliveries from the Program Wells, if the gas is delivered at the delivery point with a sufficient pressure and quality.

> NOTE: The delivery point refers to the inlet flange of DGP Taurus' existing meters to be located at mutually agreed points on DGP Taurus' gas gathering system.

DGP Taurus is not required to purchase gas from the MCU Property if it becomes unprofitable to do so. If DGP Taurus does not purchase gas for this reason for a period of 30 days, the purchase agreement may be terminated upon 30 days prior written notice (the termination would be limited to the Program Wells on the MCU Property from which the unprofitable gas was being produced). Since the primary term of the agreement has passed, the agreement is now running year to year and may be terminated by either party with 60 days prior written consent.

The Sponsor did not provide any oil processing/purchase agreements that will govern the disposition of the oil produced from the Program Wells located on the MCU Property.

Kilgore Ranch Property

The Kilgore Ranch Property is approximately 1,780 acres of oil and gas producing land located in northern Brown County, Texas. There are 20 leases that comprise the Kilgore Ranch Property (the "Kilgore Ranch Leases") and cover the Cross Cut and the Caddo Lime. A review of the Kilgore Ranch lease assignment revealed that the Sponsor acquired the Kilgore Ranch Leases on April 1, 2006 from Premiere Consolidated Oil and Gas, LLC. The Sponsor expects to drill five Program Wells on the Kilgore Ranch Property, of which two will be water injection wells and three will be production wells. The drilling operations on the Kilgore Ranch Property will target the Cross Cut; however the Caddo Lime is also an excellent candidate for waterflooding. According to the Sponsor, cumulative production from the Kilgore Ranch Property is 2,620,000 barrels of oil, with 10,176,000 remaining barrels of oil in place.

Like the MCU Property, the Sponsor currently owns 50.0% of the working interest in the Kilgore Ranch Property and has an exclusive option to acquire the remaining 50.0% working interest. The expectation is that a portion of the offering proceeds will be used to acquire this remaining 50.0% interest. The Sponsor reports that the net revenue interest in the Kilgore Ranch Property is approximately 78.0%, after the other 50.0% working interest is acquired. The Partnership is then expected to acquire from the Sponsor a 60.0% carried working interest in the Kilgore Ranch Property. This 60.0% carried working interest will become a 40.0% standard working interest when Investors have recovered 100% of their initial capital contributions, and then a 20.0% standard working interest once Investors have recovered 150% of their initial capital contributions.

The Sponsor did not provide any oil or gas processing/purchase agreements that will govern the disposition of the oil and gas produced from the Program Wells located on the Kilgore Ranch Property.

Snyder Ranch Property

The Snyder Ranch Property is 640 acres of oil and gas producing land located in Callahan County, Texas. The Sponsor expects to drill three Program Wells on the Snyder Ranch Property, of which one will be water injection wells and two will be a production well. Like the Kilgore Ranch Property, the drilling operations on the Snyder Ranch Property will target the Cross Cut. According to the Sponsor, cumulative production from the Snyder Ranch Property is 493,310 barrels of oil, with 2,733,350 remaining barrels of oil in place.

The Sponsor currently owns 100.0% of the working interest in the Snyder Ranch Property. The Sponsor reports that the net revenue interest in the Snyder Ranch Property is approximately 80.0%. The Partnership is expected to acquire from the Sponsor a 60.0% carried working interest in the Snyder Ranch Property. This 60.0% carried working interest will become a 40.0% standard working interest when Investors have recovered 100% of their initial capital contributions, and then a 20.0% standard working interest once Investors have recovered 150% of their initial capital contributions. The Sponsor provided FactRight, LLC with a title opinion, dated February 2, 2006, which indicated that the Sponsor was indeed the owner of a 100.0% working interest in the Snyder Ranch Property. A review of the title opinion also revealed that the Sponsor acquired the working interest in the Snyder Ranch Property from the Snyder Family Partnership on February 1, 2006; however, a new lease was executed between the Snyder Family Partnership and the Sponsor on February 1, 2009. This was likely due to the original lease terminating for failure to satisfy the lease covenant that requires the development of producing wells.

The Sponsor did not provide any oil or gas processing/purchase agreements that will govern the disposition of the oil and gas produced from the Program Wells located on the Snyder Ranch Property.

KPC Property

The KPC Property is 1,200 acres of oil and gas producing land located in Caldwell and Guadalupe Counties, Texas. There are 21 leases that comprise the KPC Property. The Sponsor expects to drill two Program Wells on the KPC Property, of which one will be a water injection well and one will be a production well. The drilling operations on the KPC Property will target the Austin Chalk. According to the Sponsor, cumulative production from the KPC Property is 1,230,000 barrels of oil, with 11,158,070 remaining barrels of oil in place.

The Sponsor currently owns 100.0% of the working interest in the KPC Property. The Sponsor reports that the net revenue interest in the KPC Property is approximately 78.0%. The Partnership is expected to acquire from the Sponsor a 60.0% carried working interest in the KPC Property. This 60.0% carried working interest will become a 40.0% standard working interest when Investors have recovered 100% of their initial capital contributions, and then a 20.0% standard working interest once Investors have recovered 150% of their initial capital contributions.

The Sponsor did not provide any oil or gas processing/purchase agreements that will govern the disposition of the oil and gas produced from the Program Wells located on the KPC Property.

Financial Analysis

The Sponsor has not provided a third-party engineering report, with which its projections can be verified, on three of the four Properties. Consequently, the following financial analysis is based only upon variations in commodity prices, Stephens Engineering's estimates for the MCU Property, and the unverified projections of potential production levels for the KPC Property, Kilgore Ranch Property, and Snyder Ranch Property found in the PPM. When reviewing the following results of our stress testing, please keep in mind that there is much uncertainty concerning the amount of reserves that may be recovered, the life of the Program Wells, and commodity prices, and consequently these results are only meant to illustrate the effect varying levels of recovered reserves and commodity prices could have on the investment.

The following financial projections are based on oil prices at $45/BBL and natural gas prices at $4.00. These are very conservative numbers given that oil was priced at $74.54/BBL and natural gas was priced at $5.82/MCF on the NYMEX, as of January 22, 2010. Also, please note that the price per barrel of oil and the price per MCF of gas is not inflated each year in the following tables and as a result the net revenue of the Partnership is a conservative calculation.

Some research indicates that waterfloods allow for a 30% recovery factor, which means that over the course of the lives of the Program Wells, the MCU Property could produce up to 3,613,558 barrels of oil, the KCP Property could produce 3,347,421 barrels of oil, the Snyder Ranch Property could produce 820,005 barrels of oil, and the Kilgore Ranch Property could produce 3,052,800. Keep in mind that the MCU Property will have four producing wells and three gas wells, the Kilgore Ranch Property will have three producing wells, the KCP Property will have two producing wells and the Snyder Ranch Property will have one producing well. In addition, the Stephens Engineering Report estimates that total life of the MCU Property to be approximately 21 years. If all Program Wells had a producing life of 10 years, the total daily production levels of the Program Wells would be as follows:

- MCU Property: 990 barrels of oil
- Kilgore Ranch Property: 836 barrels of oil
- Snyder Ranch Property: 225 barrels of oil
- KCP Property 917 barrels of oil

NOTE: The Sponsor has stated that it will be accelerating the development of the Program Wells ahead of the plan delineated in the Engineering Report, which provides for a 21-year well life. Consequently, the Sponsor believes that 10 years is a more appropriate well life.

The beneficial effects that the waterfloods are expected to have on the Program Wells will not be immediately evident and the Texas Railroad Commission does not have any production reported for the Properties for the last two months – the Sponsor reports that it takes two months to post data to the Texas Railroad Commission's database – and production was low in the prior months. Thus, in the following tables production starts lower in year one at 65 barrels of oil per well per day and rises as oil production increases with the stimulation of the waterfloods. We have production increasing approximately 3.0% in years two and three, 9.0% in year 4, 7.0% in year 6, and 16.0% in years 5 and 7. The Sponsor did not provide estimates of total natural gas reserves for each of the Properties although the Sponsor reports that only the MCU Property has significant gas reserves. The Sponsor estimates the MCU Property has 5.3 billion cubic feet (BCF) of gas reserves split between the Caddo and Jennings Sand. We based the following gas production levels on the estimates provided in the Engineering Report and the Sponsor's projections total annual natural gas production for the Properties.

Year	Estimated Oil Production (BOPD)*	Estimated Gas Production (MCFGPD)*	Gross Annual Revenue	Partnership Revenue	Cash on Cash Return
1	390	300	$6,843,750	$4,106,250	11.8%
2	510	420	$8,989,950	$5,393,970	15.5%
3	660	600	$11,716,500	$7,029,900	20.2%
4	720	660	$12,789,600	$7,673,760	22.1%
5	840	680	$14,789,800	$8,873,880	25.5%
6	900	400	$15,366,500	$7,868,840**	22.6%
7	1,050	380	$17,801,050	$7,120,420**	20.5%
Total	**5,070**	**3,440**	**$88,297,150**	**$48,067,020****	**138.1%**

* BOPD = Barrels of Oil Per Day; MCFGPD = Thousand Cubic Feet of Gas Per Day
**Projections represent the Partnership's revenue from the Program Wells before deducting lease operating costs. Lease operating costs are expenditures made in connection with the production and marketing of oil and gas from completed Program Wells, including labor, fuel, repairs, hauling, supplies, and ad valorem and severance taxes. The Investors become liable for lease operating costs once they have recovered 100% of their initial investment and lease operating costs are currently unknown.

The following financial projections are based on oil prices at $70/BBL and gas at $5/MCF, providing a financial scenario for higher oil and gas production levels. Again, the production starts lower in year one and rises as oil production increases with the stimulation of the waterfloods.

Year	Estimated Oil Production (BOPD)	Estimated Gas Production (MCFGPD)	Gross Annual Revenue	Partnership Revenue	Cash on Cash Return
1	600	480	$16,206,000	$9,723,600	27.9%
2	810	600	$21,790,500	$13,074,300	37.6%
3	1,200	850	$32,211,250	$16,885,200	48.5%

4	1,260	900	$33,835,500	$13,025,550*	37.4%
5	1,320	820	$35,222,500	$7,044,500*	20.2%
6	1,380	720	$36,573,000	$7,314,600*	21.0%
7	1,140	660	$30,331,500	$6,066,300*	17.4%
Total	**7,710**	**5,030**	**$206,170,250**	**$73,134,050***	**210.2%**

* Projections represent the Partnership's revenue from the Program Wells before deducting lease operating costs and before Payout is reached.

Limited Partnership Agreement

The Limited Partnership Agreement, summarized below, will govern the rights and obligations of the Partnership, the Sponsor, who will be the general partner (the "General Partner" when the Sponsor is referred to in its capacity as the general partner) of the Partnership, and the Investors.

Term and Dissolution: The Partnership will continue until August 31, 2055, unless dissolved sooner at the discretion of the General Partner, the Partnership becoming insolvent or declaring bankruptcy, sale of all or substantially all of the Partnership assets, or the General Partner withdrawing, becoming insolvent, or declaring bankruptcy and a substitute general partner is not obtained.

Capital Contributions: Upon admission to the Partnership, Investors will make capital contributions equal to $100,000 per Unit acquired. No Investor will be required to make any capital contributions in addition to this initial capital contribution, nor will any Investor be liable for any debts of the Partnership. The General Partner did not make any capital contribution in exchange for its general partner interest.

Authority of the General Partner: The General Partner has the exclusive right and authority to manage and control the Partnership, its business affairs and assets. This authority includes, but is not limited to, the right to:

- enter into any partnership agreement, sharing arrangement, or joint venture,
- enter into turnkey contracts, prospect identification contracts, leases and assignments, drilling and completion contracts, operating agreements, and any other instrument necessary to conduct the Partnership's business
- dispose of oil and gas properties in which the Partnership has an interest
- offer, sell, pledge, lease or otherwise dispose of oil, gas, and other minerals produced and, in connection therewith, execute division orders and transfer orders
- invest Partnership funds in short-term obligations or savings accounts if not immediately needed for Partnership business
- purchase or lease equipment for the Partnership
- maintain, at the expense of the partnership, complete and accurate business records
- undertake special projects if in the best interest of the Partnership
- serve as operator and participate in the drilling, testing, completion and equipping of any well if determined to be in the best interest of the Partnership

Authority and Rights of the Limited Partners: Investors will not take any part in the management or conduct of the Partnership's business, nor will they have the authority or right to act for or bind the Partnership. The Investors owning more than 75% of the Units have the right to remove the General Partner and to elect a new managing partner.

Liabilities of the Managing Partner: The General Partner will not be liable for the return of any portion of the Investors' capital contributions.

Distributions: After payment of debts and obligations of the Partnership and withholding any cash reserves required by the Partnership in the opinion of the General Partner, distributions will be made to Investors at the discretion of the General Partner.

Disposition of Program Wells: The General Partner may dispose of oil and gas properties in which the Partnership holds an interest if such disposition is in the best interest of the Partnership, consistent with the business purposes of the Partnership.

Strengths, Risks and Mitigants

Strengths

Experience of Quest: Paul Downey, the President and Chief Executive Officer of Quest, has approximately 35 years of experience in the petroleum industry. In addition, members of Quest's executive committee, which provides guidance on Sponsor operations, have significant experience in the petroleum and energy industries. This experience could prove beneficial for the performance of the Program Wells. Furthermore, Quest has owned and operated three of the Properties since 2006 and one since 2007. A review of Quest's production history on file with the Texas Railroad Commission indicates that at least some of the wells located on the Properties experienced an increase in production levels upon Quest's acquisition. Quest's familiarity with the Properties, knowledge of the technology necessary to efficiently develop the injection and production wells and implement the waterfloods may increase the likelihood that oil and/or gas is produced from the Program Wells.

Offset Leases and Similar Successful Waterfloods: BASA Resources, Inc. ("BASA Resources") is the owner and operator of a number of Caddo Lime waterflood projects in Stephens County, a few miles east of the MCU Property. Basa Resources been able to sustain production from its wells at the rate of 100-150 barrels of oil per day. In addition, Van Operating, Ltd. owns and operates an oil and gas producing property called the Herr-King Unit, which is approximately one mile northeast of the Snyder Ranch Property. The Sponsor reports that the Herr-King Unit was a successful flood. Finally, Delray Oil, Inc. has had some success in waterflooding the Austin Chalk on an offset lease. The development of the KPC Property is expected to access the Austin Chalk. The success of offset wells and prior waterflood projects by other operators may bode well for the Program Wells.

Development Locations: The Program Wells are not wildcats, but rather are development wells located on proven oil and gas properties. This helps to minimize risk to investor funds as it improves the likelihood of drilling commercially productive wells.

Tax Benefits: The Investors may have the ability to deduct intangible and tangible drilling costs. If oil and/or gas are located, Investors may be able to take advantage of the percentage depletion allowance or cost depletion, whichever provides the greater tax benefit. Quest anticipates executing its waterflood technique in the first year of investment, which could provide Investors with the opportunity to deduct significant intangible drilling costs in the first year. In addition, Investors may have the benefit of deducting tangible drilling costs such as equipment. The cost of the equipment is depreciated and deducted from income annually. The percentage depletion allowance would allow Investors to deduct 15% of the annual gross income from oil and gas while the cost depletion percentage varies based upon the amount of oil or gas produced and leasehold costs in a given tax year. Once the Program Wells have been drilled and are put on line, lease operating costs will begin to accrue. Lease operating costs are deductible and consequently, Investors may have the opportunity to deduct them once they have recovered 100% of their initial capital contributions and become responsible for paying the lease operating costs. Investors should consult their tax advisors regarding tax benefits that this offering may offer them in their own unique situations.

Risks and Mitigants

Lack of Engineering Report for Three of the Properties: The Sponsor has provided an in-depth engineering report for the MCU Property; however, engineering reports were not provided for the KCP Property, the Snyder Ranch Property, or the Kilgore Ranch Property. Consequently, FactRight cannot fully verify the Sponsor's projections for oil and gas production from the Program Wells. There are typically many uncertainties about the volumetric calculations of oil in place and the amount of recoverable oil and gas. In addition, even when drilling is successful in locating oil and/or gas, operating difficulties could arise which may make production unfeasible. Consequently, the amount of oil and gas recoverable from the Program Wells is uncertain and will remain uncertain until the Program Wells are drilled. In addition, the fact that the Engineering Report is dated 2007 is somewhat of a risk since the basis for the engineer's estimate may have changed since 2007.

> *Mitigant*: The Sponsor has represented that nothing has changed with the Properties since the Engineering Report was drafted and it is working with Weatherford International to update the report.

Leases (General): Because we performed only a spot check of the leases and lease assignments that conveyed the working interests in the Properties to the Sponsor as well as title opinions on the Properties, there is no certainty about the size of the Sponsor's working interests in the Properties. Because of the significant number of leases (over 40 leases) that comprise the Properties, it is not feasible for FactRight, LLC to thoroughly evaluate each lease and determine the size of the working interest owned. In addition, there is no certainty that all of the necessary lease covenants have been met and the leases are still in force, with the exception of the Snyder Ranch Property, which was renewed in 2009 and has a primary term of three years. The leases and title opinions for the MCU Property, Kilgore Ranch Property, and the KPC Property were executed and performed, respectively, in 2007, 2006, and 2006. Typical oil and gas lease covenants require that well development and oil and gas production take place within a certain period of time or the lease will revert to the lessor. It appears that at least some oil and gas production has taken place on the Properties, but two of the four Properties are comprised of numerous leases and there is no certainty that oil and gas has been produced on the land covered by each lease. A review of the Texas Railroad Commission database indicates that at least some of the leases covering the Properties have never produced oil or gas.

> *Mitigant*: Our spot check of the leases and title opinions revealed that the Sponsor acquired a 100.0% working interest in the Snyder Ranch Property and at least portions, if not all, of the KPC Property, which is comprised of more than 20 leases. In addition, our review indicated that the Sponsor acquired a 100.0% working interest in the MCU Property and at least portions, if not all of, the Kilgore Ranch Property. The Sponsor has been operating wells on the MCU Property consistently since 2007, and Kilgore Ranch Property and KCP Property since 2006, as evidenced by the production data on file with the Texas Railroad Commission.

<u>MCU Property Lease</u>: The lease on the MCU Property is encumbered by four liens, two of which are liabilities of the Sponsor. All of the security instruments related to these two liens contain provisions for the assignment of revenues from the debtor (now the Sponsor) to the creditor. This could have a negative impact on the Partnership's cash flows and make it more difficult for Investors to recover 100% of their initial investment or at least prolong the length of time it takes to fully recover their initial investment. Although the other two liens are not liabilities of the Sponsor, they could still pose a problem since there is the possibility that creditors would attempt to foreclose on the liens. The MCU property title opinion also noted another potential concern regarding the Sponsor's working interest ownership. The attorney that drafted the title opinion stated that he was aware of some disputes between Quest and the lessors/assignors regarding operating matters.

> *Mitigant*: Two of the liens are secured debts that are liabilities of the Sponsor and had original balances of $600,000 and $832,000. The Sponsor reports that both debts have been paid down to approximately $250,000 and $625,000, respectively. However, the Sponsor reports that no revenue is being diverted as a result of the assignments of revenues. In addition, the Sponsor provided a letter from First National Bank in Albany, Texas, the lender of the $600,000 debt, stating that the Sponsor is current on all loans held with that bank. Two of the liens are a liability of the seller since the lease assignment states that the Sponsor was receiving marketable title free of such liens. This means that the Sponsor can seek damages from the seller in the event creditors attempt to foreclose on the lien. Counsel for both sides represented that they are not aware of any dispute as to the continuing existence of the base oil and gas lease as it pertains to shallow gas production. The Sponsor indicated that the dispute was only with one of the 105 mineral owners of the MCU Property.

<u>Drilling and Waterflooding Hazards</u>: One potential hazard of waterflooding is water encroachment, which can cause inefficient production. In addition, the oil saturation of

the Caddo Lime reservoir is 38.3% and the preferred oil saturation rate is 40% or above since that is the rate necessary for building a significant oil bank with more efficient waterfloods. The large gas cap associated with the Caddo lime reservoir is another potential hazard since otherwise recoverable oil can be lost to the gas cap.

> NOTE: Water encroachment is the movement of water into a producing formation as the formation is depleted of oil and gas.

> NOTE: A gas cap is a free-gas space overlying an oil zone and occurs in the same formation as the oil.

> *Mitigant*: According to Stephens Engineering, proper design, installation, operation, and engineering supervision can minimize or eliminate many of the problems associated with water flooding. There have been a number of successful waterfloods in the Caddo lime reservoir, which supports this representation. Quest is working with Weatherford International, a global provider of oilfield production technology and services, on the engineering and development of the Properties. This may help ensure the proper design of the injection patterns as well as the proper testing and monitoring of the Program Wells, which in turn could minimize the risks associated with the waterflooding.

<u>Processing/Purchase Agreements</u>: The Sponsor has provided one gas purchase agreement, which governs the sale of gas produced from Program Wells located on the MCU Property; however, no processing/purchase agreements have been provided for the other Program Wells. Oil and gas production is only of value to Investors if it can be processed and sold at a reasonable price. If the Sponsor, as the operator, encounters problems securing a processor and purchaser of any oil and gas production, Investors' returns may be negatively affected.

> *Mitigant*: The Sponsor reports that it receives sales calls from oil purchasers on a regular basis looking to purchase it production.

<u>Dilution of Interest in Revenue from Program Wells and Commingling of Investor funds</u>: The Sponsor intends to develop a total of 38 wells on the Properties, of which 16 will be developed with the proceeds from this offering. The funds necessary for the development of the other 22 wells will come from other offerings and the Sponsor. The Sponsor has indicated that it will sell its working interest and equity interests in order to raise the additional funds. The Partnership is expected to acquire 60% of the Sponsor's working interest in the Properties and the PPM does not indicate how much of the Sponsor's working interest will be sold to future investors. Thus, one might question what working interest the Sponsor will be conveying to future investors. It is possible that Investors may experience a dilution in their revenue interest. Since all funds are being raised for the same purpose, developing the Properties, and subscriptions to the Partnership are payable to the Sponsor and it does not appear that they will be deposited into an account established solely for the Partnership, there is no certainty that Investors' funds will be segregated and used only for the development of the 16 Program Wells.

Mitigant: The Sponsor has indicated that only 15% of its working interest in the Properties will be available for sale to the investors of the AOR I, leaving the Sponsor with a 25% working interest in the Properties. In addition, the Sponsor has indicated that it will not sell portions of its working interest in the Properties to anyone other than the investors of AOR I and the Investors.

Old Wells in Close Proximity to Water Injection Wells: The Partnership could encounter permitting problems with the state of Texas if there are old wells in close proximity to the Partnership's water injection wells. If there are old wells that were improperly plugged (e.g. plugged with only heavy mud), there is the possibility that the wells will need to be re-entered and re-plugged. If improper plugging procedures were used or plugging reports are unavailable for wells within ¼ mile of the Partnership's water injection well, then reservoir pressure calculations would need to be provided to the Texas Railroad Commission and show that the quality of the ground water is not at risk in order to obtain a permit. If the reservoir pressure calculations cannot prove that ground water quality is not at risk, then the old well would need to be located, reentered and properly plugged, which would be an added cost to the Partnership.

Mitigant: According to the engineering report, reservoir pressure calculations are usually successful in showing that there is no endangerment to the ground water.

Conflicts of Interest: The General Partner will serve as the operator of all Program Wells, which presents a conflict in terms of the pricing of well operations and the determination of what well operations are in the best interest of the Partnership.

Mitigant: The General Partner has an incentive in drilling, completing, and operating the Program Wells in the best interests of the Partnership since it will only receive compensation from its working interests in the Program Wells if they are actually producing.

Operating Agreements: Operating agreements will govern important aspects of this offering such as lease operating costs, operator fees, well operations, and sales of the oil and gas produced; however, the Sponsor has reported that it does not currently have an executed operating agreement that will govern the drilling and completion of the Program Wells. Consequently, FactRight, LLC was unable to review the terms for any potential risks to the Partnership.

Mitigant: The Sponsor has stated that it typically uses the standard forms provided by AAPL or COPAS, which are reputable trade organizations. Consequently, the agreements are likely to have terms that are fair and consistent with industry practice.

Minimal Investor Rights: The General Partner controls the day-to-day operations of the Partnership and makes most business decisions.

Experience in Working Interest Programs: The Permian Advanced Oil Recovery Investment Fund II, LP is Quest's second working interest program. This lack of experience with syndicating working interest programs could impact the success of the Partnership.

> *Mitigant:* Quest and its executive committee members have many years of experience in the exploration and development of oil and gas, which is what working interest programs entail.

<u>Financial Condition of Operators</u>: The Program Wells will be operated by Quest, whose financial condition is unknown. An operator's financial condition is important in determining whether it will be able to meet its obligations under an operating agreement. In the event that Quest is unable to drill, complete, and operate a well, the Partnership may be required to contribute additional funds. *We have not reviewed Quest's financial statements.*

<u>Lease Operating Costs</u>: The actual amount of lease operating costs will not be known until the wells are drilled and producing oil. Due to the uncertainty of these operating costs, the actual returns on this investment cannot be projected with certainty.

<u>Depletion of Oil and Gas Reserves</u>: Oil and gas are depleting assets by their very nature. The actual rate of depletion of oil and gas wells is subject to myriad factors and, in normal circumstances, cannot accurately be calculated in advance.

<u>Variability in Production Levels</u>: There is no guarantee that the same amount of oil and/or gas will be produced each month. As such, the Partnership's revenue may fluctuate from month to month, which could affect the level of quarterly distributions.

<u>Volatility of Commodity Prices</u>: The Partnership's revenues depend not only on production levels, but also the pricing and demand for oil and gas. In the last 12 months, the price of oil has varied between $83.25.50/barrel (January 2010) and $33.85 (February 2009) while natural gas has varied between $2.50/MCF (September 2009) and approximately $6.00/MCF (January 2010). If oil and gas prices experience another significant drop, which is a possibility given the nature of the oil markets, the Partnership may not earn enough revenue to cover lease operating costs and/or return capital to Investors.

> *Mitigant*: As of January 22, 2010, oil was priced at $74.54/barrel and the Sponsor's projections are based on $65/barrel oil in year 1 of the investment. Given the buffer provided in the Sponsor's projections, the risk due to commodity pricing is somewhat reduced in year 1. In addition, natural gas was priced at $5.82 as of January 22, 2009 and the Sponsor's projections are based on $5/MCF in year 1.

<u>Elimination of Tax Benefits</u>: The Obama Administration's fiscal year 2010 budget includes proposals to repeal certain tax benefits for domestic exploration and drilling including deductions for intangible drilling costs, the 60-month amortization of capitalized intangible drilling costs, and percentage depletion for oil and gas wells. The elimination of these tax benefits could negatively affect the profitability of the Program Wells and the desirability of owning interests in the Program Wells.

Blue Sky: The offering is being offered under a claimed exemption from the registration requirements of the federal securities laws and the safe harbor of Regulation D. If such exemption is available, sales may be made in any state upon proper notice filing. If the exemption fails, there may be significant adverse consequences.

Title

Pursuant to the Partnership Agreement, the General Partner may hold title to the Partnership's oil and gas properties in the name of the Partnership in its own name, or the name of an agent or nominee. The Partnership will not obtain title insurance for the Properties. However, the General Partner has reported that a title survey was conducted on the leases covering the Kilgore Ranch Property and three opinions were obtained. In addition, the Sponsor reports that it has obtained title opinions on the leases covering the MCU and Snyder Ranch Properties. FactRight, LLC performed a spot check of these title opinions. We reviewed the title opinion on one of the leases comprising the KPC Property in addition to a title opinion on the MCU Property, the title opinion on the Snyder Ranch Property, and one title opinion on the Kilgore Ranch Property.

Investor Relations

Investor Rights

Investors will possess voting rights proportionate to their interests in the Partnership. They will have the power to vote on the following:

- Dissolution followed by reconstitution of the Partnership after the Partnership becomes insolvent or declares bankruptcy, sells all or substantially all of its assets, the General Partner withdraws, becomes insolvent, or declares bankruptcy, or the occurrence of a dissolution event under the Texas Business Organizations Code (requires majority approval)
- Removal of the General Partner and election of substitute managing partner (75% approval required)
- Amendment, modification or waiver of Partnership Agreement (requires majority written approval in addition to General Partner's written approval)

In addition, each Investor has the right to inspect the books and records of the Partnership at any time during reasonable business hours at the principal office of the Partnership, which is also the location of the Sponsor's office.

Distributions

Distributions are expected to be made quarterly beginning six months after funding of the applicable offering stage has been completed.

Transferability

Investors may not transfer any or all of their Units in the Partnership unless the Units are registered under the Securities Act of 1933 or an exemption from registration is available and counsel has provided an opinion, acceptable to the Partnership, that the Units may be transferred without violation of registration requirements pursuant to federal or state securities laws.

Investor Communication

According to the Sponsor:

As soon as reasonably practicable following the Partnership's fiscal year end, the Managing Partner will provide Investors all information necessary for the preparation of their individual federal, state, and local income tax returns.

Sixty days after the close of each quarter, the Managing Partner will provide Investors with status reports regarding drilling and completion activities of the Program Wells until such activities are completed.

Within 10 days of receipt, the Managing Partner will provide Investors copies of any notice of material default under any material instrument to which the Partnership is a party or which materially affect the assets of the partnership. In addition, the Managing Partner will notify Investors of any other material developments that affect the Partnership, its business or assets, as soon as practicable following the occurrence such development.

Tax Discussion

The Partnership has not requested a tax opinion from legal counsel or any rulings from the Internal Revenue Services regarding the tax implications of this offering. In addition, the PPM makes no representations as to the potential tax consequences of an investment in the Partnership. Nor does the PPM discuss the likelihood of the Partnership being taxed as a partnership. Potential Investors are advised to consult their own tax counsel concerning the tax consequences of an investment in the Partnership.

Litigation

Our firm performed an entity and litigation search using LexisNexis®, Public Access to CourtElectronic Records, and the FINRA BrokerCheck Report. Additionally, we searched various state-sponsored websites. We requested all directors and officers of the Sponsor to complete a FactRight Release of Information form. Background and litigation searches were performed on the following individuals:

- Jeff Downey
- Paul Downey
- Antonie "Wobbe" Ploegsma III

The background searches on Mr. Jeff Downey and Mr. Ploegsma did not reveal any civil or criminal matters material to this offering. The searches on Mr. Paul Downey revealed a personal bankruptcy filing from December 5, 1994, with a disposition date of March 29, 1995.

Additionally, we conducted background and litigation searches on Quest Energy Management Group, Inc. and Permian Advanced Oil Recovery Investment Fund II, LP. Our searches indicated there is no material pending or threatened litigation against the Sponsor or its affiliates.

Conclusion

Oil and gas investments can be very risky, with the level of risk determined by the type of investment program. One of the key strengths of this offering is the fact that it is a developmental drilling program, meaning that the Program Wells will be drilled in proven areas. In addition, the Program Wells are expected to be developed with waterfloods, a technique that has been shown to improve production levels. Other key strengths include favorable data from offset wells like those owned and operated by BASA Resources, which have demonstrated that waterfloods of the Caddo Lime can be successful. The experience of the Sponsor as an operator of the Properties is another strength that should be noted, as familiarity with the Properties could bode well for their future performance. Finally, there is considerable expense associated with the use of waterfloods as a secondary recovery technique; thus Investors may have the benefit of substantial intangible drilling cost deductions and, if the Program Wells are commercially productive, a depletion allowance. With that said, there are certain key risks that should be noted. First, the lack of engineering reports on three of the four Properties is a risk since the Sponsor's projections cannot be verified. Another key risk includes the indebtedness currently encumbering the Sponsor's working interest in the MCU Property. There are currently four liens on the working interest in the MCU Property. Two of the liens total $103,000 and are not a liability of the Sponsor; rather, the liens are a liability of the seller since the lease assignment states that the Sponsor was receiving marketable title free of such liens. The other two liens are secured debts that are liabilities of the Sponsor and had original balances of $600,000 and $832,000. The Sponsor reports that both debts have been paid down to approximately $250,000 and $625,000, respectively. Since there is an assignment of revenues that is attached to these two encumbrances, cash flows that would otherwise go to the Investors could be diverted to the lender. A reduction in cash flow to Investors could make it more difficult for Investors to recover 100% of their initial investment or at least prolong the length of time it takes to fully recover their initial investment. However, the Sponsor reports that no revenue is being diverted as a result of the assignments of revenues. In addition, the Sponsor provided a letter from First National Bank in Albany, Texas, the lender of the $600,000 debt, stating that the Sponsor is current on all loans held with that bank. Other key risks include the potential commingling of Investor funds and revenue from the Program Wells, and the potential for waterflooding issues that cause the Program Wells to produce secondary reserves insufficient for Investors to recover 100.0% of their initial investment.

Sponsor Comments

After given an opportunity to provide them, the Sponsor did not provide any comments to this Report.