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Analysts: Achille Desmarais, CA, CFA
Bob Leshchyshen, MBA, CFA

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Recommendation

Speculative Buy

Target Price

$0.80

Risk

High

Average Daily Volume

20-da:700,000/150-da:360,000

Quick Facts

Recent Price	$0.45
Symbol	OCL: TSX
Shares O/S	30.73 million
Shares O/S FD	34.31 million
52-Wk. Range	$1.36 - $0.10
Year-End	December 31

C$	BVPS	CFPS
2003a	$0.03	($0.02)
2004a	$0.04	($0.02)
2005e	$0.05	($0.03)
2006e	$0.08	$0.02

STRENGTHS
- **Large land position in highly prospective regions**
- **Valuable proven and probable reserves**
- **Excellent corporate partners**

RISKS
- **Oil & Gas is a volatile industry**
- **Potential for dry holes or poor drilling results**
- **Political risks**

CONCLUSION
- **High-impact potential for significant growth in cash flow**

ORACLE ENERGY CORP.

Data Source: www.BigCharts.com

Oracle Energy Corp is a junior oil and gas exploration company with activities in Romania, Yemen and Peru.

SUMMARY & RECOMMENDATION

Oracle Energy Corp. ("Oracle" or the "Company") is an international junior oil and gas exploration company with assets in Romania, Yemen, and Peru. After spiking to a high of $1.36 per share in September 2005 on the back of positive news flow, the shares have declined to await developments. With initial production expected in 2006, we expect a renewal of investor interest in the Company. We rate the stock a Speculative Buy at current levels, with a 12 months' Target Price of $0.80 per share.

Oracle is engaged in the development of six oil and gas fields in Romania with joint venture partner Carpathian Energy. At the beginning of 2005, Chapman Petroleum Engineering Ltd. completed a report on three of the fields, stating a total of proved, probable, and possible net reserves to Oracle in these fields of 240,000 stock tank barrels of crude oil, and 1,770 million cubic feet of gas. One of the fields, Nadlac, will soon be producing gas and natural gas liquids, which should start to provide sustainable cash flow beginning in 2006.

Oracle is engaged with joint venture partner, Yemen Mayfair Petroleum Corp., in the exploration and development of a suite of high potential oil prospects situated on Yemen's Red Sea coast close to the Saudi Arabian border. We would assess the exploration prospect of Block 22 to be at least 1 million barrels of net recoverable oil reserves.

In north-eastern Peru, the Company has acquired a 30% interest, and may acquire an additional 45%, in Area XIII, which comprises 500,000 hectares within Peru's Maranon Basin. According to a study by Fugro Robertson International Ltd, one of the world's largest and most reputable upstream oil and gas consultancies, the Maranon Basin has the potential to generate up to 137 billion barrels of oil.

We remain bullish on oil prices over the next three years and believe that Oracle's strategy of building a well-balanced portfolio of international oil and gas assets should produce significant results in the medium term.

THE COMPANY

Oracle Energy Corp. is a junior oil and gas exploration company publicly traded on the TSX Venture Exchange (symbol: OCL) and the Frankfurt Stock Exchange (symbol: O2E). Based in Vancouver, Oracle owns assets in Romania, Yemen, and Peru.

1. Romania

The Company is actively engaged in the development of six oil and gas fields in Romania with joint venture partner Carpathian Energy Companie Petroliera SRL ("Carpathian Energy"). Oracle has a 20% interest in the project. This is an advanced stage project where management is expecting production to commence in summer of 2006. Total proven and probable reserves of the three major fields are estimated to be 161,000 barrels of oil and 1,734 million cubic feet of gas. As indicated in our peer group comparison, Grove Energy, Falcon Oil & Gas, and Sterling Resources are all active in Romania.

2. Yemen

Oracle is also engaged with joint venture partner, Yemen Mayfair Petroleum Corp. ("YMPC"), in the exploration and development of high potential oil prospects in Block 22 situated on Yemen's Red Sea coast close to the Saudi Arabian border. Oracle has a 15% interest in Block 22, which comprises 8,151 square km within the oil-rich Tihama Basin. Total initial reserves of Block 22 are estimated to be 1 million barrels.

3. Peru

Oracle has recently entered into an agreement with Serpet Consult SA ("Serpet") to acquire a 75% interest in an Evaluation Agreement to promote Area XIII, located in the province of Maynas, Peru and covering some 500,000 hectares. Estimated reserves could reach as much as 137 billion barrels of oil. Repsol-YPF, Burlington Resources, Occidental Petroleum, and Petrolifera Petroleum are all active in the vicinity.

BACKGROUND

Oracle originally was a mining company when it went public in 1986, and became active in oil and gas when new management took over the firm in 1999. In February 2000, the Company, known then as Southern Nites Petroleum Corp., signed its initial agreement to acquire an interest in Block 22 in Yemen. The project was brought to the Company by the current president, Mr. Nasim Tyab, who negotiated all the contracts and assembled the team responsible for the development of oil and gas activities. At the same time, the Company changed its name to Oracle Energy Corp. and completed a two million unit private placement at C$0.20 per share and warrants that were priced at C$0.50 per share, which refinanced the Company and allowed new backers to acquire a stake.

Of the 2 million units in this placement, YMPC, the vendor of Block 22, purchased 750,000. At the same time, YMPC's parent company, Mayfair Petroleum Corp. ("Mayfair") acquired an additional 1.2 million shares in a private transaction with other shareholders of Oracle. These transactions made the vendor of the Block 22 interest one of the largest stakeholders in Oracle.

COMMENT: *We consider this to be significant since it ties a successful private explorer, YMPC, to a public funding vehicle, and gives Oracle access to Mayfair's technical expertise and regional experience.*

From 2002 to the present, Oracle's management has been looking actively at acquiring working interests in international oil & gas plays. The Company acquired an interest in the Romanian fields in 2005 and, recently, entered into an agreement to acquire a 75% interest in Area XIII in the Maranon Basin in Peru.

RECENT DEVELOPMENTS

The Nadlac Field in Romania – In November 2005, Carpathian Energy, the operator of the field and Oracle's partner, announced the re-work operations on Well #3 had been completed and that the well was producing gas and condensate. Initial tests indicated gas and fluid produced at the following rates: 27/64-inch choke: 1.230 million cubic feet per day (mmcfd) and 23 bcd (barrels of condensate per day) and 15/64-inch choke: 0.673 mmcfd and 10 bcd. These results look promising.

On January 17, 2006, additional information was released by Carpathian Energy. Initial review of data and field information recently obtained from Petrom S.A. (the former state owned oil company of Romania) indicates that the oil section beginning at 9390 feet (immediately below the gas section previously analyzed) contains significant commercial recoverable oil reserves. This zone was not previously analyzed by Carpathian and no reserves had been assigned to it.

COMMENT: So, not only is there a probable commercial gas pool, but also there seems to be significant oil reserves.

The geological data indicates that the oil zone is field wide and covers an area of at least 860 acres. The data shows the oil column to be at least 71 feet thick, although production tests indicate it could be greater. Porosity is reported to be 7% to 15%, which is good, with some shaly sections and fracturing within the sand. Gravity of the oil in the field is very light and API* degrees ranging from 41 to 52. Based on these parameters, it is estimated that the Nadlac field should contain approximately 8 million barrels of recoverable oil (1.6 million net to Oracle's 20%) and that 16 to 20 new wells will have to be drilled to fully develop it.

Work is continuing on the cleanout of Well #100, which is situated near the center of the field. Once the well is cleaned out, new logs will be run in the well-bore to fully establish the extent of the oil zone and further evaluate other potential in the field. If bond log analysis shows good cementation, then Well #100 will be tested and completion attempted in the oil zone.

*API = American Petroleum Institute gravity number

COMMENT: *This information is most encouraging, and brings additional support to the value of the Company, which we have included in our determination of the Company's net asset value.*

PROPERTIES

A. ROMANIA

1. Oil and Gas Markets in Romania

Romania concluded energy negotiations necessary to EU membership in June 2004 and, in October 2004, the European Commission designated Romania a "functioning market economy," a prerequisite to EU membership. Romania is working with the International Monetary Fund to bolster its economy, showing gross domestic product growth rate of 8.5% in 2004.

Although the Romanian natural gas market is still heavily regulated, the government has gradually opened the market since 2001, reaching about 40% in 2004. The government plans to fully open its natural gas markets by July 2007 in accordance with EU directives on a common gas market.

Source: IEA, Country Analysis Briefs, March 2005.

The actual gas price is US$4.00 per mcf and, as the market deregulation is gradually implemented, the gas price is expected to increase to approximately US$7.00 per mcf by the end of 2006.

COMMENT: *We believe that the evaluation report prepared by Chapman on Bordei Verde West, Nadlac, and Cozieni, is based on relatively conservative assumptions. However, due to the risk associated with operations at the international level, we find it advisable to use only Chapman's estimated cash flow of US$6,871,000 discounted at 10% as a good proxy for the commercial value of all the Romanian assets. For the moment, we retain no value for the other three fields not evaluated by Chapman. On the other hand, we view the recent information about significant oil reserves at the Nadlac field released by Oracle as very encouraging (see Recent Developments) and we have taken that information into account in the estimate of the net asset value of the Company .*

2. Oil and Gas Concessions

In September 2005, the TSX Venture Exchange approved the amended property purchase agreement, dated August 17, 2005, between Oracle Energy Corp. and Carpathian Energy Companie Petroliera SRL, a private company controlled by Mr. Arne Greaves, pursuant to which the Company may acquire up to a 20% interest in six oil and gas claims located in Romania: known as Bordei Verde West, Nadlac, Cozieni, Catrunesti, East Ciumeghiu and North Ciumeghiu concessions.

The US$500,000 purchase price was satisfied by the payment of US$166,667 (US$60,000 paid) and the issuance of 2,751,177 shares in three equal stages. The shares issued and to be issued, to Carpathian are as follows:

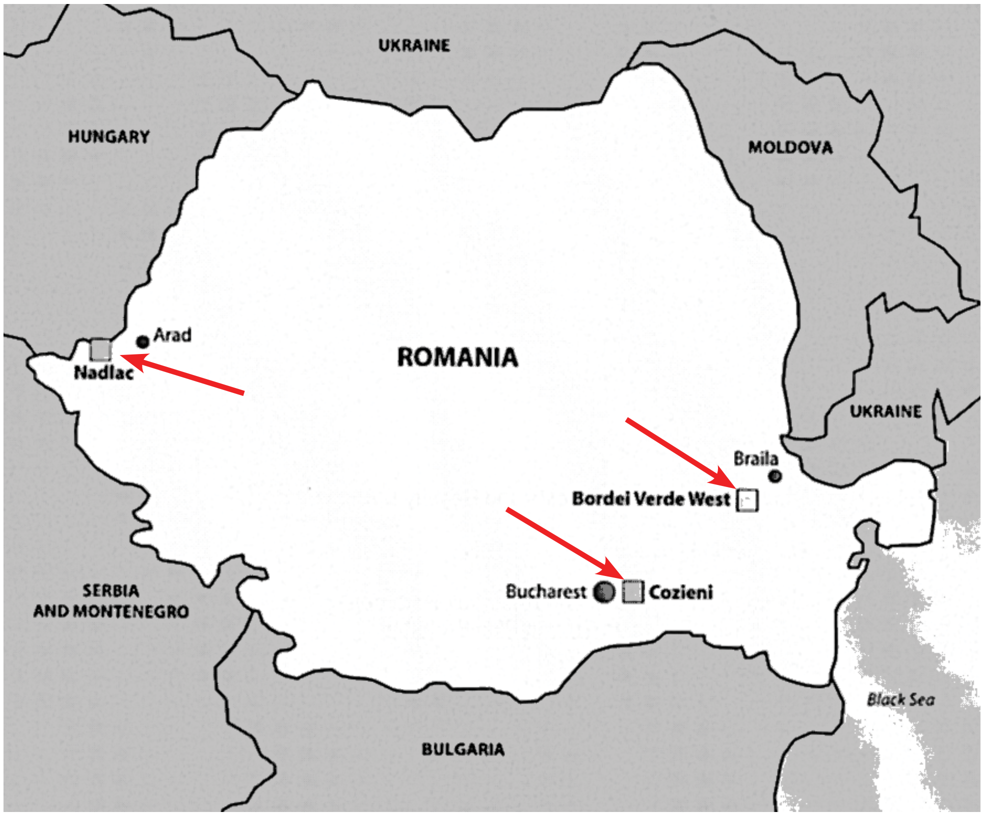
a) 917,059 common shares were issued upon acceptance by the exchange;
b) 917,059 common shares were issued on December 13, 2005, increasing its interest by 4.4%; and
c) 917,059 common shares will be issued on March 13, 2006 and will vest Oracle's interest from 15.6% to 20%.

Although there is a further tranche of 917,059 common shares to be issued on March 13, 2006, Oracle is currently participating in 20% of the six concessions in terms of expenditures and earnings.

As part of the approval process, Oracle engaged Chapman Petroleum Engineering Ltd ("Chapman"), a Calgary based petroleum engineering and consulting firm to complete an independent reserve and economic evaluation report on the Company's targeted oil and gas properties in Romania.

The Chapman report dated January 1, 2005 evaluated three of the six concessions in which historic data is sufficient to support an assignment of reserves. These concessions are: Bordei Verde West, Nadlac, and Cozieni.

Figure 1: Map of Three Major Romanian Assets



Source: Company

(a) Bordei Verde West - This field was discovered in 1972 and is situated 40 kilometers southwest of the city of Braila. It consisted of 25 wells that were crude oil producers, and 7 wells that produced natural gas. In this field, it is intended to re-establish production through the drilling of up to 14 new wells, some on existing locations, and other step out wells to develop extensions to the pool.

(b) Nadlac - This field is close to the Hungarian border, between Arad and Szeged. The reservoir was discovered in 1978, and has been fairly closely delineated by 10 wells, of which 3 were actually placed in production. These 3 were initially oil wells, but the adjacent gas cap eventually caused excessive gas production at the expense of the oil rate. One well was later re-completed into the gas cap. All of the remaining reserves in the Nadlac field have been assigned to the gas cap portion of the pool. The pool size is estimated to be 8 million barrels.

The Carpathian/Oracle joint venture intends to re-enter a total of 4 wells and to drill 4 additional new wells for rich gas production. The re-work operations of Well #3 have been completed (as discussed previously in Recent Developments) and the re-work operations of Well #100 started on November 18, 2005.

Given the recent success of Well #3 and the presence of a gas pipeline near-by, Nadlac could be producing 3 mmcfd and 75 bbls of condensate per day by the end of March 2006. That production will generate a sustainable cash flow enabling the partnership to proceed with additional exploration activities.

In addition, there has been a significant development at the Nadlac field in terms of potential recoverable oil reserves identified through a review of data and field information recently obtained by Carpathian from Petrom S.A. (see: Recent Developments).

(c) Cozieni - The Cozieni field is located approximately ten kilometers east of Bucharest, the country's capital city. It was discovered in 1968, and 2 wells were completed for production. The Cozieni gas field comprises a series of stacked, shallow sandstones, ranging in depth from approximately 450 meters to 850 meters. Local production practice favoured sequential rather than commingled production of different intervals. The development plan for the Cozieni field is to re-enter the 2 original wells and re-complete them in by-passed intervals. Although the estimated reserves are small, approximately 2 bcf, Carpathian is keen to exploit them because of their high profitability.

(d) Other Concessions - The other three concessions were reviewed and may still have potential, but the data were not sufficient to support an assignment of reserves at this time. According to Mr. Arne Greaves, Carpathian plans to have Catrunesti and East Ciumeghiu estimated in 2006. As for Northern Ciumeghiu, it is understood at present that the field might not contain reserves of commercial value.

3. The Chapman Report

Crude oil prices utilized in the Chapman evaluation were forecasted to average US$36 per barrel in 2005, which reflects US$6.00 per barrel less than West Texas Intermediate crude (WTI). Thereafter, the oil price continues to follow the Chapman forecast for WTI, less US$6 per barrel, to account for transportation, quality and local market conditions. Natural gas prices were forecasted to average US$3.25 per mcf in 2005, escalating to US$3.90, US$4.49, US$4.93 and US$5.00 in subsequent years.

Table 1 - Summary of Reserves and Economics Before Income Tax

	Net To Appraised Interest				
				Cumulative Net Cash Flow - M$US	
	Oil	Sales Gas	NGL	Discounted at:	
	MSTB	MMscf	Mbbls	Undisc.	10% / year
Proved Undeveloped					
Bordei Verde Field	53	275	0	2,291	1,482
Nadlac Field	0	291	5	1,422	861
Total Proved Undeveloped	53	566	5	3,713	2,343
Probable Undeveloped					
Bordei Verde Field	108	257	0	3,943	2,331
Cozieni Field	0	122	0	453	346
Nadlac Field	0	789	13	3,721	1,850
Total Probable Undeveloped	108	1,168	13	8,117	4,527
Total Proved Plus Probable Undeveloped	161	1,734	18	11,830	6,870
Possible					
Bordei Verde Field	79	37	0	2,264	1,198
Total Proved Plus Probable Plus Possible	240	1,771	18	14,094	8,068

MSTB: Thousands of Stock Tank Barrels
MMscf: Millions of standard cubic feet
M$US: Thousands of USD

Source: Chapman Petroleum Engineering Ltd., Reserve and Economic Evaluation, January 1, 2005

4. Fiscal Regime

Royalties payable to the Romanian government for the expected production rates are a maximum of 5%. Development expenditures in excess of US$1,000,000 will earn the joint venture a five-year tax holiday. Following this exempt period, a 16% corporate tax is levied on the future profits from the development project.

5. Project Capital Expenditures

The investments required to undertake re-development of the fields are predominately drilling and re-entry costs. Most of the infrastructure required for oil and gas production is already in place from the previous development in the area. Accordingly, capital cost estimates in Bordei Verde West are limited to US$265,000 per well drilled, completed and equipped. New wells in the deep Nadlac field are estimated to cost US$900,000 each. Re-entries in the Nadlac field are projected to cost US$200,000 per well, and US$100,000 per well in Cozieni. These costs are expected to be sufficient to also cover downstream expenses for short flow-line tie-ins, metering, etc.

Oracle's US$166,667 cash payment for the acquisition will be utilized to the benefit of both parties to commence re-working existing wells. As each well should begin generating revenue shortly following its completion, and if future work is carried out at a methodical pace, the future work should be largely self-funding.

Oracle's 20% share of the capital costs estimated by Chapman Petroleum Engineering in the calculation of a 10% NPV of US$6,871,000 for the proved undeveloped and probable reserves of the 3 fields, i.e. Bordei Verde West, Nadlac and Cozieni, is US$1,596,000 (US$650,000 in the first year and US$946,000 in the second year).

B. YEMEN

1. The Political Risk

There are definite political risks in operating in Yemen, as exemplified by a recent development between Hunt Oil Company and the Yemeni Government. Details are provided in Appendix 1, page 21.

2. Oil and Gas Concessions

Block 22 in Yemen was awarded to Yemen Mayfair Petroleum Corp. (YMPC) in 1993 and, since then, YMPC and its farm-out partners have spent about US$20 million to evaluate that block located within the oil-prone Tihama/ Jaizan Basin. The joint venture partners' interests are currently: YMPC 65%; Onslow Limited, U.K., 20%; and Oracle 15%.

The Block has been licensed by the Yemeni Government to YMPC and is currently in good standing. An oil development licence has a duration of 20 years from the declaration of commercial discovery, while a gas development has a duration of 25 years from the date of initial commercial production.

Figure 2 - Map of Yemen

Source: Company

The Tihama/Jaizan Basin contains several discoveries in the Upper Miocene. Wells drilled by Aramco Petroleum adjacent to Block 22, across the border in Saudi Arabia, are reported to have flowed oil, in one instance at a rate of 600 bopd, with the potential to flow up to 2000 bopd upon proper completion. Within Block 22, surface oil seeps occur on the Salif Peninsula, and have been used by the local population as a source of fuel. Oil seeps are also reported on the nearby Farasan Islands. Oil and gas shows were recorded over an interval of 2,500 feet in the offshore A1-Meethag-1 well drilled by Hunt Oil, which contains hundreds of feet of rich oil-prone source rock within the objective Upper Miocene marine section. Onshore, small quantities of oil were recovered from the Abbas-1 and Alpha-1 wells.

As the table below shows, much of the previous drilling activity was not highly successful. However, today's more advanced seismic technology is expected to improve the success ratio.

Table 2 - Previous Wells Drilled in the Block 22 Area

Well Name	Year spudded	Operator	TD metres	Status	Comments
Delta-1	1998	YMPC	2236	P&A dry	Mesozoic test, dry
Gamma-1	1998	YMPC	2445	P&A gas shows	Continental Miocene facies
Alpha-1	1996	YMPC	2000	P&A oil shows	Continental Miocene facies
Al Meethag-1	1986	Hunt	1836	P&A oil shows	Oil and gas shows in marine Miocene section
Abbas-1	1980	Shell	3414	P&A oil shows	Miocene reef play dry due to non-carbonate lithology
Al Auch-1	1980	Shell	2812	P&A dry	Miocene reef play dry due to non-carbonate lithology
Zaydiyah-1	1961	Mecom Oil	3014	P&A gas shows	Drilled on Aeromagnetic data
Salif-2	1961	Mecom Oil	2222	P&A dry	Drilled on Aeromagnetic data. No trap, dry
Salif-1	1961	Mecom Oil	1524	P&A dry	Drilled on Aeromagnetic data. No trap, dry

P&A = plug and abandoned

Source: Independent Evaluation of Al Zaydiah Block 22 by Merlin Energy Resources Ltd., May 2000

COMMENT: *This table gives a good overview of the past efforts to explore the oil potential of Block 22. It is a challenging area and the keys to a successful outcome are the expertise and experience of the principals of YMPC. Their track record in the Marib Basin has given them good credibility as oil finders.*

3. Joint Venture Activities

YMPC has completed four exploration phases to date, including the acquisition of 640 km of new high-quality 2-D seismic data and the drilling of the Alpha-1, Gamma-1, Delta-1 and Beta-1 test wells.

COMMENT: *The principals of YMPC, namely Moujib Al-Malazi and Ray Fairchild, were instrumental in the discovery of Yemen's first major oil field in the mid-1980s, located in the Marib Basin and brought successfully to production by Hunt Oil.*

At the beginning of December 2005, YMPC reported that, following drill stem tests performed on the Beta-1 well, no hydrocarbons were recovered, although certain shows were encountered during drilling. The well was plugged and abandoned on December 6, 2005.

Although the Beta-1 well was unsuccessful, it is assumed that YMPC and its partners will remain committed to Block 22. Geologists know that drilling some dry holes do not condemn a block but rather provide information leading to the next target. Any further prospect in Block 22 should be comparable in size to the Beta prospect and it is justified to use the latter as an index to anticipate similar size of oil reserves recoverable in other sections of Block 22. For these reasons, some potential value can be attributed to Block 22 considering the exploration work done so far and the resources invested in it. Therefore, we have projected net recoverable reserves from Block 22 of 1 million barrels and used conservative assumptions in our calculation of the value of that asset.

C. PERU

1. Oracle Interest in Area XIII

Oracle acquired a 75% interest in Area XIII in Peru. The acquisition was announced on November 3, 2005. Area XIII comprises 500,000 hectares within Peru's Maranon Basin. Fugro Robertson International Ltd, one of the world's largest and most reputable upstream oil and gas consultancies, calculated that the volume of oil capable of being generated in the Maranon Basin from its three main source rocks totals 137 billion barrels.

Figure 3: Area XIII in Peru

Source: Company

Oracle holds a 30% working interest in the Exploration and Production Agreement (EPA) having advanced Serpet US$125,000. The remaining 45% interest shall be earned upon payment of an additional US$125,000 at closing, which follows a period for additional due diligence and the negotiation and execution of a farm-in-agreement and joint operating agreement.

The US$250,000 to be paid by Oracle to Serpet is allocated as follows: (a) a prospect fee of US$150,000, and (b) US$100,000 for execution by Serpet of a data reprocessing work program. Upon satisfactory completion of the work program both parties intend to enter into a Technical Evaluation Agreement or Exploration and Production Agreement with Perupetro, the Peruvian regulatory agency of the oil and gas activities, to pursue additional operations in Area XIII.

2. Other Operators

Other companies are actively pursuing exploration activities in the Maranon Basin. Repsol-YPF has an interest in Block 39 west of Area XIII; Burlington Resources has an interest in Block 104 southwest of Area XIII; and Petrolifera, a subsidiary of Connacher Oil & Gas, is present in Block 106. Occidental Petroleum is active in Block 101 southwest of Burlington's block.

COMMENT: *An oil pipeline already running from Block 1AB assigned to PlusPetrol to the coast represents a very positive asset for the future development of the Maranon Basin.*

COMMENT: *In our opinion, Area XIII could be quite prospective given the fact that many companies are showing keen interest to work in the Maranon Basin.*

FINANCIAL REVIEW AND OUTLOOK

Cash Flow: Oracle is still a pure oil and gas exploration company and, accordingly, is not cash flow positive. Up to now, the Company has funded its exploration activities by issuing equity, warrants, and stock options.

Cash: Oracle currently has a cash balance of C$507,699. For 2006, we estimate that operating cash flow to Oracle could reach C$587,000, which will provide the main source of funds to fulfill its commitments.

Burn Rate: In the latest three-month period, Oracle had a monthly burn (i.e., non-discretionary administrative, general, and operating expenses) of about $58,000. For the 2005 nine-month stub period, it was about $41,000. We estimate the monthly burn rate in 2006 will be about $50,000. As indicated above in Cash, we anticipate that Oracle will generate sufficient cash flow to cover its burn rate.

Capital Structure: As at January 31, 2006, Oracle had 30,735,255 common shares outstanding.

Warrants and Options: On January 10, 2006, the Company announced the granting of 1,250,000 incentive stock options to insiders and consultants. They are exercisable at a price of C$0.22 per share for a two-year period. Shares issued upon the exercise of the options are subject to a hold period until May 10, 2006. This approach generates dilution and the following table provides a complete picture of the capital structure.

Table 4 - Share Structure as of January 31, 2006

1. Common Shares

Unlimited	**Authorized**
30,735,255	**Issued and outstanding**

2. Warrants

Number	Exercise Price	Expiry Date	Comment	Potential Equity
651,666	*$0.250*	*April 15, 2006*	*In-the-Money*	*$162,917*
1,345,833	*$0.225*	*June 21, 2006*	*In-the-Money*	*$302,812*
40,000	*$0.225*	*June 27, 2006*	*In-the-Money*	*$9,000*
192,000	*$0.225*	*July 25, 2006*	*In-the-Money*	*$43,200*
500,000	*$0.225*	*August 9, 2006*	*In-the-Money*	*$112,500*
845,500	*$0.200*	*October 20, 2006*	*In-the-Money*	*$169,100*
3,000,000	$0.500	October 24, 2007	In-the-Money	$1,500,000
6,574,999				**$2,299,529**

3. Options

Number	Exercise Price	Expiry Date	Comment	Potential Equity
600,000	$0.120	July 11, 2007	In-the-Money	$72,000
450,000	$0.600	November 17, 2007	In-the-Money	$270,000
1,250,000	$0.220	January 10, 2008	In-the-Money	$275,000
545,000	$0.100	January 18, 2010	In-the-Money	$54,500
2,300,000				**$617,000**

Note: The entries in italics are within our 12-month forecast period. Their totals are:

3,574,999	Warrants & Options to expire within one year	**$799,529**
34,310,254	**FULLY DILUTED SHARES (*e* Research calculation)**	

Source: Oracle Energy and eResearch

For the purpose of calculating our estimate of the Company's net asset value (see Valuation, page 14) we have included all of the above warrants and options indicated in italics as they are likely to be exercised. This increases the shares outstanding to 34,310,254, and provides an additional $799,529 to Shareholders' Equity.

COMMENT: *Although potential dilution of a company's share capital is not desirable, investors in junior resource companies are fully cognizant that, until a company gets its properties into production, there is the need to spend considerable sums of money for exploration and development. The main sources of funds to finance these programs are equity issues, warrants, and options. In our survey of a few junior oil & gas companies similar to Oracle in terms of development, we found that Oracle's capital was on the lower end of the range in terms of potential dilution.*

Financial Statements: The table below sets out the following abridged financial statements: Statement of Income/(Loss); Statement of Cash Flow; and the Balance Sheet. A brief commentary on these statements then follows.

Table 5 - Selected Financial Information

	Nine Months Ending Sept. 30		Year Ending December 31			
	2004	2005	2003	2004	2005E	2006E
Statement of Income/(Loss):						
Revenues	-	-	-	-	-	1,787,874
Operating expenses:						
Production & Depletion						(649,280)
General & administrative expense	(193,276)	(373,026)	(178,219)	(343,375)	(528,926)	(550,000)
Amortization	(413)	(450)	(776)	(550)	(600)	(830)
Stock based compensation	(108,000)	(228,400)	-	(84,621)	(228,400)	(250,000)
Operating profit (EBITDA)	(301,689)	(601,876)	- (178,995)	(428,546) -	(757,926)	337,763
Interest	(474)	(939)	(1,010)	(636)	(1,239)	(1,380)
Net income/(loss) before taxes	(302,163)	(602,815)	- (180,005)	(429,182) -	(759,165)	336,383
Extraordinary items	25,637	-	(254,000)	44,578	-	-
Income taxes	(4,000)	-	-	-	-	-
Net income/(loss)	$ (280,526)	$ (602,815)	$ (434,005)	$ (384,604)	$ (759,165)	$ 336,383
Total Shares Outstanding	13,861,094	23,838,966	10,873,483	16,189,094	30,735,255	34,310,254
Average Shares (fully diluted)	13,861,094	20,014,030	10,404,733	12,577,525	21,001,247	34,000,000
Earnings (Loss) Per Share	($0.02)	($0.03)	($0.04)	($0.03)	($0.04)	$0.01
Statement of Cash Flow:						
Net Income/(Loss)	(280,526)	(602,815)	(434,005)	(384,604)	(759,165)	336,383
All Non-Cash Items	82,776	228,850	217,428	168,027	229,000	250,830
Cash Flow from Operations	(197,750)	(373,965)	(216,577)	(216,577)	(530,165)	587,213
Cash Flow Per Share	($0.01)	($0.02)	($0.02)	($0.02)	($0.03)	$0.02
Capital Expenditures (Properties)	(65,150)	(138,104)	(65,150)	(65,150)	(1,117,600)	(650,000)
Other Investing Items	-	(1,400)	5,000	5,000	-	-
Free Cash Flow	(262,900)	(513,469)	(276,727)	(276,727)	(1,647,765)	(62,787)
Working Capital Changes	82,321	(96,808)	(2,950)	(2,950)	(106,165)	(250,830)
Equity Financing	176,500	1,113,932	276,800	276,800	1,824,028	799,529
Debt Financing	-	-	-	-	-	-
Change in Cash	(4,079)	503,655	(2,877)	(2,877)	70,098	485,912
Cash, Beginning of the Period	6,921	4,044	6,921	6,921	4,044	74,142
Cash, End of the Period	2,842	507,699	4,044	4,044	74,142	560,054

	As at September 30		As at December 31			
	2004	2005	2003	2004	2005E	2006E
Balance Sheet:						
Cash	2,842	507,699	6,921	4,044	74,142	560,054
Other Assets	5,043	15,490	5,552	8,112	14,112	14,112
Current Assets	7,885	523,189	12,473	12,156	88,254	574,166
Capital Assets	1,507	2,320	1,920	1,370	7,170	11,340
Resource Property	765,150	1,126,310	700,000	765,150	1,876,950	2,522,780
Total Assets	774,542	1,651,819	714,393	778,676	1,972,374	3,108,286
Current Liabilities	131,918	73,779	343,417	163,209	292,044	292,044
Other Liabilities	-	-	-	-	-	-
Total Liabilities	131,918	73,779	343,417	163,209	292,044	292,044
Shareholders' Equity	642,624	1,578,040	370,976	615,467	1,680,330	2,816,242
Total Liabilities & Equity	774,542	1,651,819	714,393	778,676	1,972,374	3,108,286
Book Value (S.E.) Per Share	$0.05	$0.07	$0.03	$0.04	$0.05	$0.08

Source: Oracle Energy and eResearch

COMMENT: *As shown above, we expect Oracle will initiate production in 2006, which will throw off an estimated modest cash flow of almost $600,000. Over the past two years, the Company has undergone a significant expansion of Resource Property assets, rising from $700,000 at the end of 2003 to an estimated $2.5 million by the end of 2006. Book value per share shows steady improvement, with estimates of $0.05 per share for the year just ended and $0.08 per share for the current year. Unless some exciting unforeseen opportunity presents itself, we are expecting capex will drop in 2006 to about $650,000 from a little over $1.1 million in 2005. The "equity financing" shown represents our expectation of warrants that are likely to be exercised this year.*

VALUATION

A. Considerations

(a) Investors are advised that the reserves of the 3 fields in Romania evaluated by Chapman have been in accordance with the Canadian Oil and Gas Evaluation Handbook and NI 51-101 standards of disclosure. The net present values presented in the report do not necessarily represent the fair market value of the reserves evaluated in the report.

(b) Investors are cautioned that the exploration prospects in Block 22 in Yemen do not have any assigned proven or probable reserves. Our evaluation and price target is based on the assumption that drilling prospects as identified by seismic or other geological interpretation will be followed by a drilling program.

(c) The price target is based on the current shares outstanding plus all those warrants and options that are "in-the-money" and expire within our forecast period. No allowance is provided for any additional dilution that may occur from debt, new equity financing, or changes in the Production Sharing Agreement and Joint Venture agreement that may occur before commercial production is realized in Romania and from Block 22 in Yemen.

B. Methodologies

In attempting to arrive at a value for the Company's shares, we used the following valuation methodologies: (1) Comparable or Peer Valuation; and (2) Net Asset Value Analysis ("NAV").

1. Peer Valuation Method

We have compared Oracle to five similar oil and gas exploration companies, namely, Calvalley Petroleum; Falcon Oil & Gas Ltd.; Grove Energy Limited; Sterling Resources Ltd; and Petrolifera Petroleum. Calvalley operates in Yemen, the following three all have resource properties in Romania at the early stage of development, and Petrolifera is active in Peru.

Table 6 – Peer Valuation Method

		Oracle Energy OCL 30-Sep-05	Calvalley Petroleum CVI.A 30-Sep-05	Falcon Oil & Gas FO 30-Sep-05	Grove Energy GRV 30-Sep-05	Petrolifera Petroleum PDP 30-Sep-05	Sterling Resources SLG 30-Sep-05
Corporate:							
	Share Price	C$ 0.45	C$ 6.50	C$ 1.26	C$ 0.69	C$ 9.59	C$ 1.56
	Shares O/S	23,838,966	91,330,022	312,121,063	127,691,419	20,000,001	79,446,967
	Market Cap	C$ 10,727,535	$U 507,922,784	$U 336,483,985	C$ 88,107,079	C$ 191,800,010	C$ 123,937,269
Resource Value:							
	Book Value	C$ 1,126,310	$U 18,793,757	$U 7,933,966	C$ 19,646,162	C$ 4,420,837	C$ 14,335,996
	Market Value	C$ 10,202,026	$U 474,904,489	$U 305,374,212	C$ 74,636,932	C$ 186,970,159	C$ 95,167,360
	Difference	C$ 9,075,716	$U 456,110,732	$U 297,440,246	C$ 54,990,770	C$ 182,549,322	C$ 80,831,364
	Property Ratio	9.06	25.27	38.49	3.80	42.29	6.64
	Average Ratio	20.92					
	Selected Ratio	17.00					
Common Equity (Reported)		C$ 800,665					
Common Equity (Property Ratio)		C$ 9,876,381					
Common Equity (Average Ratio)		C$ 23,241,830					
Common Equity (Selected Ratio)		C$ 18,821,625					
Equity Per Share (Reported)		C$ 0.03					
Equity Per Share (Property Ratio)		C$ 0.41					
Equity Per Share (Average Ratio)		C$ 0.97					
Equity Per Share (Selected Ratio)		C$ 0.79					

Source: eResearch

The shares of Oracle are currently trading at a “property” ratio of 9.06x compared to a range between 42.29x and 3.80x for the peer companies, a wide range indeed. The average ratio of the five peer companies is 23.30x. Calvalley is enjoying a comfortable ratio of 25.27x thanks to the success obtained with the drilling of 5 Hiswah wells on Block 9 in Yemen. Grove’s low ratio of 3.80x is explained by the difficulties encountered during the extended production test performed in March 2005 at the D-14 appraisal well in Slovenia. The expectations of the market were not satisfied and the stock is now trading well off its 2005 high.

Falcon’s high ratio of 38.49x could be due in large part to the marketing talent of its dynamic president, Mr. Marc A. Bruner. The ratio of 42.29x of Petrolifera is explained by the significant success obtained in Argentina at the Neuquen Basin: the stock has quadrupled in the last two months. The strong support given by Connacher Oil & Gas, which owns 35% of Petrolifera, is another positive for the company. As for Sterling, its modest ratio of 6.64x can be explained by the disappointing results of the Cetatuia well in Romania.

Oracle’s ratio of 9.06x reflects the “wait and see” mode of the market for this company. However, we believe the market has not yet come to appreciate the quality of the Company’s assets, especially those in Romania. Therefore, we have selected a ratio of 17.00x to the property value of Oracle and obtain a value per share of C$0.79. In calculating this per share number, we have used 34,310,254 shares outstanding, as set out in Financial Review and Outlook (Warrants and Options) on page 12. Our selected ratio, while significantly higher than the current number, is still well below the average of the other peer companies.

2. Net Asset Value Method

The second method used to calculate a per share value for Oracle is the Net Asset Value (NAV) determination. Our assumptions are as follows:

1. Based on the recent information received from Carpathian Energy, recoverable oil net to Oracle from the Nadlac field is estimated to be approximately 1.6 million barrels.

2. For Block 22, we use an estimate of 1 million barrels to be extremely conservative given the fact that YMPC has not yet announced any definitive exploration plan in the area over the short term;

3. Market price = US$40 per barrel of oil;

4. 15% fixed cost per barrel of oil;

5. 40% variable cost per barrel of oil;

6. For the three gas fields, we are taking the DCF value from the Chapman Report

7. For the oil reserves of the Nadlac field, we discount the value by 40% over two years;

8. For the oil reserves in Block 22, we discount the value by 40% over four years since the timing for bringing any production from Yemen is unknown;

9. For Area XIII in Peru, since this is a recently-acquired activity, we are taking the current amount of funds paid, namely, US$125,000; and

10. Canadian dollar – U.S. dollar conversion rate: US$1 = C$1.145475 (C$1=US$0.873)

Conclusions:

1. For the three gas fields in Romania, the discounted value is estimated to be C$7,870,561;

2. For the Nadlac oil reserves, the discounted value is estimated to be C$16,831,475;

3. For the oil reserves in Block 22 in Yemen, the discounted value is estimated to be C$5,367,179; and

4. For Area XIII in Peru, the discounted value is estimated to be C$143,184.

The total is C$30,212,400 which, on our estimate of diluted shares outstanding of 34,310,254, is equivalent $0.88 per share.

Our calculations are shown in the following table.

Table 7: NAV Table

	Conversion Rate		1.1454754	**US$**	**C$**
Gas Reserves, Three Fields, Romania					
	Three fields: Bordei Verde West, Nadlac, and Cozieni				
	Net Asset Value of the 3 Romanian Gas Fields		(1)	**$6,871,000**	**$7,870,561**
(1)	10%-Discounted Cash Flow Value Estimated by Chapman Petroleum Engineering				
Oil Reserves, Nadlac Field, Romania					
	Net Estimated Recoverable Reserves (bbls) with a probability of 90%			1,600,000	
	Realized Price of Oil (US$ / bbl)			$40.00	
	Gross Asset Value			$64,000,000	**$73,310,424**
	Oil Fixed Cost	(per bbl)	15.0%	$9,600,000	
	Oil Variable Cost	(per bbl)	40.0%	$25,600,000	
	Total Cost			$35,200,000	**$40,320,733**
	Undiscounted Value of recoverable oil reserves			$28,800,000	**$32,989,691**
	Net Asset Value of recoverable oil reserves at Nadlac discounted @ 40% over 2 years				**$16,831,475**
Block 22, Yemen					
	Net Estimated Recoverable Reserves (bbls)			1,000,000	
	Realized Price of Oil (US$ / bbl)			$40.00	
	Gross Asset Value			$40,000,000	**$45,819,015**
	Oil Fixed Cost	(per bbl)	15.0%	$6,000,000	
	Oil Variable Cost	(per bbl)	40.0%	$16,000,000	
	Total Cost			$22,000,000	**$25,200,458**
	Undiscounted Value of recoverable oil reserves			$18,000,000	**$20,618,557**
	Net Asset Value of recoverable oil reserves at Block 22 discounted @ 40% over 4 years				**$5,367,179**
Area XIII, Peru					
	Net Asset Value = Current Book Value			$125,000	**$143,184**
TOTAL NET ASSET VALUE					**$30,212,400**
	Common Shares Outstanding				30,735,255
	Options				0
	Warrants				3,574,999
	Fully diluted shares as of January 31, 2006				**34,310,254**
NET ASSET VALUE PER SHARE					**$0.88**

Source: Company and eResearch

CONCLUSION: TARGET PRICE

Investors should be aware of the highly speculative nature of Oracle and the difficulty to forecast a 12-month price target. We cannot realistically estimate a price target based on expectations of success.

Our price target is based on the evaluation of the three gas fields in Romania calculated by Chapman Petroleum Engineering, the new oil zone recently identified at Nadlac, the exploration value of Block 22 in Yemen contingent upon further exploration plans for the concession, and the prospects in Peru.

Based on the two valuation methods, the indicated value for Oracle using:

1. Peer Valuation is C$0.79 per share; and
2. Discounted Net Asset Value is C$0.88 per share.

These valuations are well in excess of the current share price, which, in our opinion, does not take into full account the potential value of Block 22 in Yemen. In addition, the Nadlac field in Romania is in a position to secure a sustainable cash flow to the Company in 2006 and provide the financial resources needed to bring to fruition the potential of Block 22 and of Area XIII in Peru.

Therefore, we consider Oracle's shares to be in a position to offer good appreciation possibilities once the market begins to realize and understand the true potential of Oracle's assets.

Our 12-month Target Price is C$0.80 per share, with higher levels possible depending upon the oil and gas production generated by the Romanian fields, any increase in the oil zone at Nadlac, further exploration plans in Yemen in the coming months, as well as further development of the Peru project.

The shares are rated a Speculative Buy and are considered suitable only for risk-tolerant investors.

MANAGEMENT AND DIRECTORS

A. THE BOARD

Nasim Tyab, Vancouver, B.C.
Mr. Tyab is a business leader with strong background in corporate development, finance and strategic planning. He has 15 years experience with public companies including 5 years experience in the oil and gas sector. To date, he has raised all of the necessary capital for Oracle Energy as well as negotiated its material business agreements. He is a member of the Board since the year 2000.

Dr. Robert McTavish
From 1992-1999, Dr. McTavish was a Director of Balkan Gas and Oil Company Ltd., which later became Consolidated Energy. He also set up Frontier Petroleum Services Corp. in 1985, becoming chairman in 2001. In 2004, he became Managing Director of Tay Petroleum Ltd., Scotland. As a professional geologist, Dr. McTavish brings to the company more than 35 years of experience in the oil and gas industry. He has worked throughout the Middle East, Europe, N. Africa, Southeast Asia, the USA and Australia with such companies as CONOCO and West Australian Petroleum. Appointed on February 8, 2005 and elected to the Board on October 28, 2005.

Loren D. Currie
Mr. Currie has been involved in the public market for the past 18 years. He is presently the CFO of a publicly traded company on the NEX Exchange. He has extensive experience in corporate governance and is very knowledgeable in the rules and regulations of the Exchange and Securities Commissions. Appointed on October 15, 2004 and reelected to the Board on October 28, 2005.

B. MANAGEMENT

Nasim Tyab, President

Loren D. Currie, Chief Financial Officer

Dr. Robert McTavish, Technical Director

C. MANAGEMENT OF CARPATHIAN ENERGY, THE JOINT VENTURE PARTNER IN ROMANIA

S. Arne D. Greaves
Mr. Greaves is Director and Chief Executive Officer of Carpathian and is a shareholder through a U.S. Corporation. He is also President of Inland Petroleum, a regional U.S. oil and gas company (Inland does not own any shares of Carpathian). Mr. Greaves oversees the daily activity of running Carpathian as it relates to geology, all oil and gas activity and planning.

Alexandru Popescu
Mr. Popescu is the principal shareholder and Managing Director of Carpathian. He is a former Secretary of State of Romania and handles the corporate duties of Carpathian in Romania, overseeing government filings and related administrative work.

Liviu Marcu
Mr. Marcu is a petroleum engineer and a former Secretary of State in the energy sector of Romania. He is also a former drilling engineer for Petrom, S.A. Mr. Marcu oversees the actual workovers undertaken by Carpathian and will oversee the drilling of new wells.

D. MANAGEMENT OF YMPC, THE JOINT VENTURE PARTNER IN YEMEN

Oracle Energy Corp.'s Joint Venture Management Team is a group of highly motivated professionals with extensive experience in corporate development and an in-depth knowledge of the oil exploration industry in Yemen, the Middle East and worldwide.

Moujib Al-Malazi
Position: Chairman, Mayfair Petroleum Company
Mr. Al-Malazi is a geophysicist who left an extensive career as an executive with Continental Oil Company to establish his own private oil industry consulting business in 1980. Mr. Al-Malazi was instrumental in leading Hunt Oil Company to explore within the Republic of Yemen, leading to multiple world-class discoveries, and in assisting Hunt in establishing the nation as an important oil region.

Ray Fairchild
Position: President, Mayfair Petroleum Company
Mr. Fairchild is a geologist with a wide-ranging oil industry background. He joined Mayfair after retiring from Hunt Oil Company as its Senior Vice President, International Exploration and Production. Together with Mr. Al-Malazi, Mr. Fairchild was instrumental in some of the first oil discoveries within the Republic of Yemen.

Aseem Al-Malazi
Position: General Manager, Yemen Mayfair Petroleum Corporation
Mr. Al-Malazi is a geologist who brings extensive experience to Mayfair Petroleum's management. Mr. Al-Malazi resigned from managerial responsibilities with Mobil Oil Company's German subsidiary in order to establish Mayfair's operational presence in Sana'a, Yemen.

Ron Frazee
Position: International Oil Lawyer
A highly experienced international oil lawyer, Mr. Frazee came to Mayfair after a long tenure with Hunt Oil Company.

Buff Norgen
Position: International Oil Lawyer
Mr. Norgen is an international oil lawyer who established his own law practice in London in 1973 after resigning as Continental Oil Company's chief legal officer in Europe.

APPENDIX 1: POLITICAL RISKS IN YEMEN

There are definite political risks in operating in Yemen, as exemplified by a recent development between Hunt Oil Company and the Yemeni Government.

Yemen Exploration & Production Co. (YEPC), a venture of Hunt Oil Co., ExxonMobil Corp., and South Korea's SK Corp., reported that operations in oil fields in Yemen's Marib region have been taken over by a government-owned company after the alleged violation of a contract by the Yemeni government. YEPC filed for arbitration with the International Chamber of Commerce in Paris, claiming the government expropriated Block 18 (the Marib Al-Jawf Block) on November 15, 2005.

The joint venture has produced oil from the block for about 18 years under a production sharing agreement passed into law in Yemen in 1982. A 5-year extension of the agreement, signed on January 4, 2004, was supposed to take effect November 15, 2005.

According to a statement by Hunt Oil, the government "has taken numerous actions to prevent YEPC from exercising its duties as operator of Block 18." It called the action "without precedent in Yemen" and said the government has attempted to replace YEPC with government-owned Safer Exploration & Production Operations Co.

Operations associated with the Marib PSA include a central production unit able to handle as much as 400,000 b/d of oil, a 10,000 b/d refinery, a 263-mile pipeline with capacity of 225,000 b/d, and four gas processing plants with capacities exceeding 1.6 bcfd.

Hunt Oil holds a 38.5% stake in the venture; ExxonMobil has 38%, and a Korean consortium headed by SK holds 24.57%.

Source: Oil & Gas Journal, Nov. 23, 2005

COMMENT: *According to some sources familiar with oil operations in Yemen, the relations between Hunt Oil and the Ministry of Energy were always difficult and it came as no surprise that the parties could not come to an agreement over a 5-year extension of the agreement. However, there is still hope that they will come to an agreement acceptable to both parties. On the other hand, it must be acknowledged that other operators, namely Nexen Inc., Calvalley Petroleum and TransGlobe Energy, are pursuing very successful activities in Yemen and consider their dealings with the Yemeni Government as very satisfactory.*

NOTES

ANALYST CERTIFICATION

Each Research Analyst who was involved in the preparation of this Research Report hereby certifies that: (1) the views, opinions, and recommendations expressed in this Research Report reflect accurately the Research Analyst's personal views concerning any and all securities and issuers that are discussed herein and are the subject matter of this Research Report; and (2) the fees, earnings, or compensation, in any form, payable to the Research Analyst, is not and will not, directly or indirectly, be related to the specific views, opinions, and recommendations expressed by the Research Analyst in this Research Report.

***e*Research analysts on this report: Achille Desmarais, CA, CFA** started and ended his career with the Caisse de dépôt et placement du Québec, the last 15 years as a senior portfolio manager and investment analyst, with primary responsibilities in the energy sector, oil & gas, pipelines, and electric public utilities. In between, he spent one year each with Levesque Beaubien Inc. (now National Bank Financial), and McNeil Mantha Inc. (now RBC Dominion Securities) providing research coverage on various industries, including industrial companies, steel, metal fabrication, and waste management.
Bob Leshchyshen, MBA, CFA B.A., has extensive research and analytical experience with several prominent equity research and credit-rating organizations, including Northern Securities, St. James Securities, Dominion Bond Rating Service, PPM Fund Mangers (Canada), a unit of Prudential Life Insurance Company, and McNeil Mantha. His analytical career has spanned more than 25 years with particular emphasis on the financial sector and special situations.

*e*RESEARCH ANALYST GROUP

Director of Research: Bob Weir / Analyst Co-Ordinator: Bob Leshchyshen

Financial Services
Robin Cornwell
Peter von Ond

Oil & Gas
Emanuel Abraham
Achille Desmarais
Dick Fraser
Sam Kiri

Telecommunications
Beverly Brooks
Mary Anne DeMonte-Whelan

Biotechnology
Scott Davidson
Philippe Douville
Keith Lue

Special Situations
Bill Campbell
Bob Leshchyshen
Beverly Brooks
Jean Ouellet
Amy Stephenson
Bob Weir

Transportation & Environmental Services
Bill Campbell

Industrial Products
Bill Campbell
Peter von Ond

Mining & Metals
Emanuel Abraham
George Cargill
Stephen Mussart
David Scott
Robert Simpson
Thomas Schuster
Barbara Thomae
Michael Wood

Energy & Utilities
Emanuel Abraham
Melvyn Misner

Health Care
Scott Davidson
Philippe Douville
Jayson Parker

Information Technology
Marcia Wisniewski

Chief Economist
Beverly Brooks

*e*Research Recommendation System

Strong Buy: Expected total return within the next 12 months is at least 40%.

Buy: Expected total return within the next 12 months is between 10% and 40%.

Speculative Buy: Expected total return within the next 12 months is substantial, but Risk is High (see below).

Hold: Expected total return within the next 12 months is between 0% and 10%.

Sell: Expected total return within the next 12 months is negative.

*e*Research Risk Rating System

A company may have some, but not necessarily all, of the following characteristics of a specific risk rating to qualify for that rating:

High Risk: Financial - Little or no revenue and earnings, limited financial history, weak balance sheet, negative free cash flows, poor working capital solvency, no dividends.

Operational - Weak competitive market position, early stage of development, unproven operating plan, high cost structure, industry consolidating, business model/technology unproven or out-of-date.

Medium Risk: Financial - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend.

Operational - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry

Low Risk: Financial - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock.

Operational - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.

For further information:

Independent Equity Research Corp.

130 Adelaide St. W,
Suite 2215, Toronto Ont.,
Canada M5H 3P5

Telephone: 416-643-7650
Toll-free: 1-866-854-0765

Our research is accessible on:
www.eresearch.ca