Fundamental Research Corp.

Investment Analysis for Intelligent Investors

Brian Tang, CFA
Analyst

Amit Bandekar, B.E. (Petroleum Engineering), MBA
Technical Consultant

Siddharth Rajeev, B.Tech, MBA
Analyst

June 11, 2007

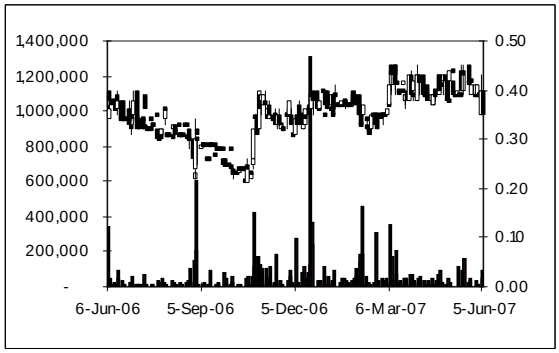
Derek Oil and Gas Corporation (TSX.V: DRK) – Initiating Coverage; Expecting to Commence Commercial Production This Summer

Sector/Industry: Oil & Gas **www.derekoilandgas.com**

Market Data (as of June 6, 2007)

Current Price	C$0.40
Fair Value	C$0.90
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	C$0.21 – C$0.45
Shares O/S	45,126,536
Market Cap	C$18.05 mm
Current Yield	N/A
P/E	N/A
P/B	1.07
YoY Return	25.0%
YoY TSX	14.8%

*see back of report for rating and risk definitions



Investment Highlights

- DRK, with the help of advanced technology and 3D seismic, is on the verge of putting the LAK Ranch project into commercial production. Previous attempts by major operators to put the field into production were unsuccessful.
- The field is situated in one of the richest petroleum basins in the Rocky Mountains (according to a report prepared by a USGS Resource Assessment Team). The property is well located (eight kilometers southeast of the Wyoming Oil Refinery in Newcastle, Wyoming) and equipped with good infrastructure.
- The company recently completed a 12-well program on a small area of the property. Based on a conservative estimate of average initial production (IP) of 30-40 bpd from each of the eight new producer wells, we expect production from the 12-well program to be about 240-320 bpd (gross) by the end of the summer.
- We believe that cash flows from operations will be sufficient to fund the company's capital expenditures from next year onwards, which means that the effects of stock dilution on our valuation will be minimal.
- Our outlook on short-term and long-term oil and natural gas prices in North America is positive. The company recently signed a contract to sell the produced oil at the NYMEX futures settlement price for light sweet crude oil (Cushing, OK) less US$7.00 per barrel.

Risks

- DRK carries all the risks associated with an exploration and production company, such as exposure to commodity prices.
- Success of the project will depend heavily on the results of the development program in 2007.
- Even though we expect the company to start generating revenues this summer, access to capital is very crucial for the company to be able to continue pursuing exploration and development programs.

Key Financial Data (FYE - April 30) (C$)	2004	2005	2006	2007 (9 mo)
Revenues	-	-	-	-
Net Loss	(1,569,893)	(1,375,553)	(1,063,257)	(951,382)
EPS	(0.060)	(0.040)	(0.030)	(0.020)
Cash	632,700	1,008,208	1,652,370	1,391,923
Oil and Gas Assets	13,814,938	14,194,246	14,438,903	15,552,444
Debt / Capital	-	-	-	-
Assets	14,654,434	15,285,700	16,239,458	18,297,988

Derek Oil & Gas Corporation, based in Vancouver, Canada, is an oil exploration, development and production company. The company is currently the operator (with a 95% working interest) of an 8,000-acre property (LAK Ranch property) located in Weston County, Wyoming, on the eastern margin of the Powder River Basin, one of the richest petroleum basins in the Rocky Mountains. The LAK Ranch project is expected to commence commercial production this summer.

Company Overview

Derek Oil & Gas Corporation, based in Vancouver, Canada, is an oil exploration, development and production company. The company is currently the operator (with a 95% WI) of an 8,000-acre property (LAK Ranch property) located in Weston County, Wyoming. The property (shown below) is in the eastern margin of the Powder River Basin, one of the richest petroleum basins in the Rocky Mountains.

Source: DRK

The LAK Ranch property was discovered in the 1920's. Due to complex geology, reservoir heterogeneity, and high viscosity of oil, the project requires an enhanced oil recovery (EOR) technique to recover oil from the field. Although several recovery techniques were employed by several major players in the past, commercial production was never achieved in the field. DRK acquired interests in the project in 1997, and has invested about $10 million on the project to date. The company is now in a position to take the project to the next level by commencing commercial production this summer. Compared to previous operators, we believe DRK is in the best position to start commercial production in the field. The company has surpassed the learning curve, has access to advanced technology and 3D seismic, and has the opportunity to learn from all the experiences of previous operators.

DRK was incorporated in April 1981 under the name Cove Energy Corporation. The company changed its name to Derek Resources Corporation in May 1995, and to its current name in March 2003.

Investment Highlights

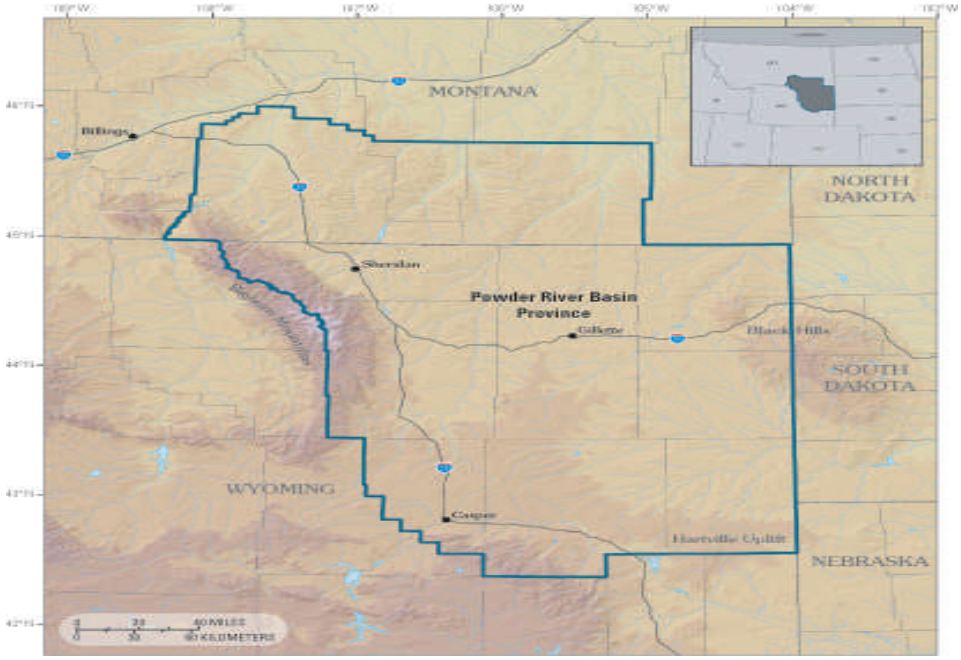
- DRK, with the help of advanced technology and 3D seismic, is on the verge of putting the LAK Ranch project into commercial production. Previous attempts by major operators to put the field into production were unsuccessful.

- The LAK Ranch property is situated in one of the richest petroleum basins in the Rocky Mountains. The property is well situated (eight kilometers southeast of the Wyoming Oil Refinery in Newcastle) and equipped with good infrastructure.
- We expect the company to start generating revenues this summer as production commences from the recently completed 12-well program. We believe that cash flows from operations will be able to fund the company's capital expenditures from next year onwards, which means that the effects of stock dilution on our valuation will be minimal.
- DRK has a strong management team with extensive experience in the resource sector and capital markets. The fact that the company has put all its focus on one project for the past nine years shows their optimistic attitude and commitment towards the project.
- Our outlook on short-term and long-term oil and natural gas prices in North America is positive. The company will benefit from high oil prices, but increases in natural gas prices will increase its operating costs, as DRK consumes natural gas to produce steam for oil recovery. However, we believe that natural gas prices would have to rise significantly relative to oil prices, for the project to become uneconomic. We estimate that a 10% increase in natural gas prices increases operating costs by only 3.1% and lowers profits by only 2.2%.

Based on our valuation model and analysis of the company's project, we are initiating coverage on DRK with a BUY rating and a fair value estimate of $0.90 per share (Risk 5: Highly Speculative).

Powder River Basin

The Powder River Basin (drained by the Powder River) is a geologic structural basin covering southeast Montana and northeast Wyoming. The basin is about 120 miles wide and 200 miles long. The map below shows the location of the basin. The basin, bounded by several mountains, is sparsely populated and is known for its grass covered lands and semiarid climate.



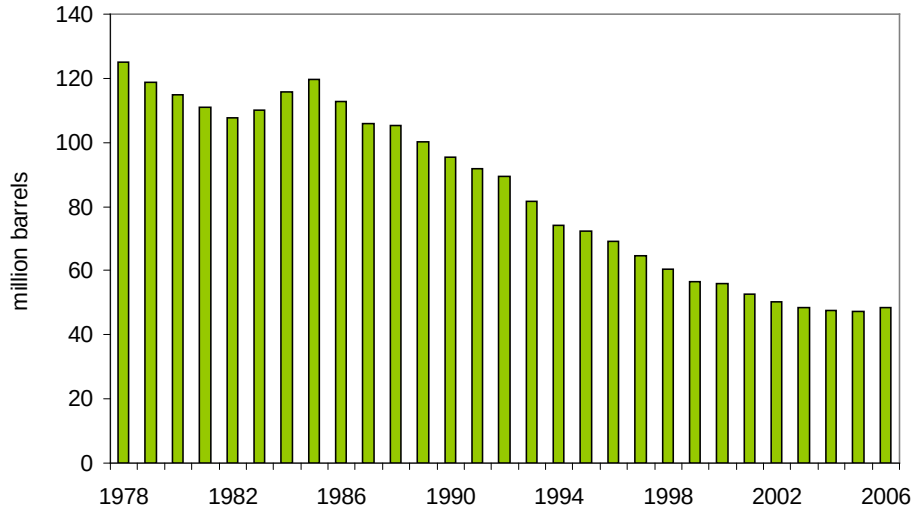
Source: USGS

The Powder River Basin is a very prolific source of coal bed methane. The basin, well known for low-sulphur coal, is the largest source of mined coal in the U.S and has some of the largest coal deposits in the world. According to the U.S. Geological Survey (USGS), much of the projected growth in coal production in the U.S. is expected to come from the Powder River Basin. Production of sub-bituminous coal in the Powder River Basin is projected to increase by 73% from 2005, to 2030 (base case scenario). In addition to being an important resource for coal bed methane, the basin is also known for major deposits of petroleum, conventional natural gas and uranium.

The Powder River Basin is one of the richest petroleum producers in the Rocky Mountains. Plays in the Powder River Basin are of both structural and stratigraphic types, and occur in three major petroleum source rock and reservoir systems-Pennsylvanian-Permian, Lower Cretaceous, and Upper Cretaceous. The top three producing fields in the Power River Basin in 2006 were: Salt Creek (2.6 mmboe), Hartzog Draw (1.18 mmboe) and WC (1.13 mmboe). According to a report prepared by a Resource Assessment Team at the U.S. Geological Survey (USGS), more than 2.7 billion barrels of recoverable oil, and over 2.3 tcf of natural gas have been discovered in about 700 fields in the Powder River Basin, since the discovery of the Salt Creek field in 1908.

Wyoming Oil Production: According to the Enhanced Oil Recovery Institute (University of Wyoming), about 8 billion bbls remain in Wyoming fields, of which 5% - 15% could be recovered with EOR methods. Wyoming oil production (shown next page) had been on a downward slide since 1985. Oil production declined from 119.7 mm boe in 1985, to 47.4 mm boe in 2005. **However, due to revived production from old fields, Wyoming recorded its first increase in oil production in 21 years in 2006 (increase of 2.5% YOY), which we believe is very encouraging for junior exploration and production companies like DRK.**

Wyoming Oil Production



Source: WOGCC

LAK Ranch Property

Property location and infrastructure

LAK Ranch is a cattle ranching area of generally flat terrain, covered by grasses and other vegetation. The property, situated near Highway 16, is just eight kilometers southeast of the Wyoming Oil Refinery in Newcastle. Currently, small-scale oil produced from the property is trucked to the Mush Creek Collection Station, near Newcastle. Oil from the collection station is typically piped to the nearby Wyoming refinery.

The property has good infrastructure. Financed almost completely by DRK, Bateman Engineering Inc. (LSE: BATE) designed and built an above ground facility, which includes a 27-million btu steam generator, computer control center, a fiber optic system, an aerial cooler, a heater treater, oil production and storage equipment, and a water separation unit. In the recovery process, the company injects steam into the reservoir, which later comes to surface with oil. The water that flows out is treated and reinjected underground. A picture showing the project's infrastructure is shown below.

Source: DRK

The day-to-day operations of the entire project are monitored and controlled by two staff members. The project uses a digital simulation model to evaluate the reservoir's response to drilling and steam flooding. A fiber optic system is installed to monitor the reservoir temperature and provide data on the effectiveness of the steam injection. Other than additions to steam generation and oil handling/storage capacity, we believe that there is no need for any major investment in infrastructure for the project.

Ownership

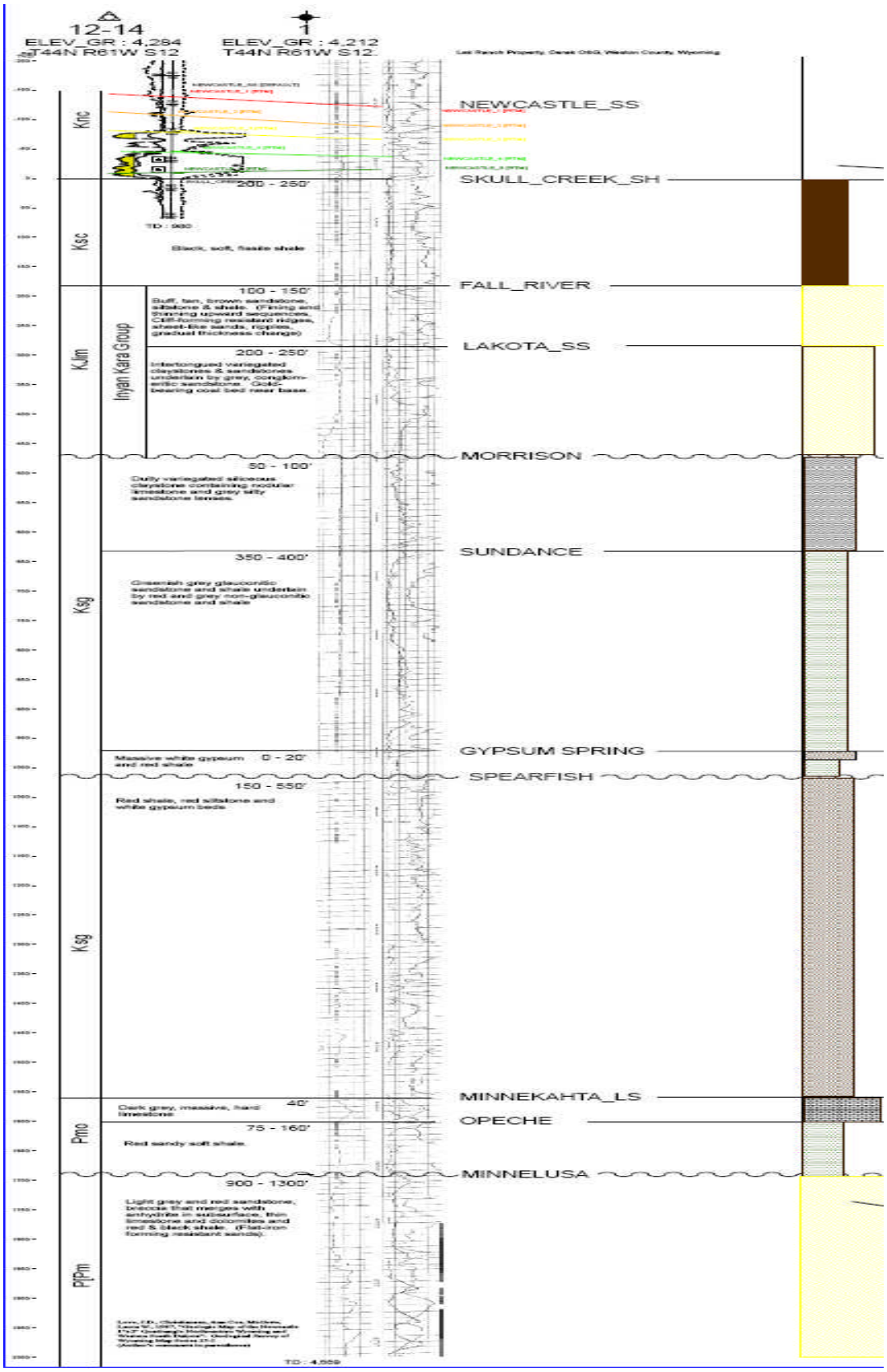
Derek has a 95% working interest (WI) in the LAK Ranch project. A private partnership, SEC Oil & Gas, owns the remaining 5%. DRK has approximately 17% of royalty payable to

landowners and overriding royalty holders. Derek owns a 4.3% royalty on all oil produced within the property. After deducting royalty payments and taxes, DRK expects a net interest of 66.3% on total revenues generated from production.

The company initially acquired the right to earn a 75% WI (18% royalty) in the LAK Ranch project in 1997-98. In August 2001, the company increased its interest to 100%. In 2003, DRK entered into an agreement with SEC Oil and Gas, whereby SEC could earn a 5% WI (10% revenues until 1.2 times payback) by paying US$0.6 million for exploration activities. In January 2004, the company entered into an agreement with Ivanhoe Energy (TSX: IE), whereby Ivanhoe could earn up to a 60% interest in the project by spending US$5 million on capital development of the project. However, in December 2006, DRK repurchased all of Ivanhoe's interest in the project, through a favorable deal, by paying them US$0.8 million (US$0.6 million on signing and $0.2 million as royalties from production).

Geology

The LAK Ranch Field, situated on the eastern edge of the Powder River Basin, is prospective of heavy napthenic oil production from the Cretaceous age Newcastle Sandstone formation. The lower Newcastle sand is similar to another reservoir (also in the Powder River Basin), the Muddy Sand reservoir, of the producing Skull Creek and Mush Creek oil fields located about nine miles west of the LAK Ranch property, the "J" Sandstone of the Denver Basin, and the Viking sands in the Western Sedimentary Basin of Alberta, Canada. The Muddy Sand reservoirs produce lighter (30 to 32 degree API) napthenic crude, but they lie deeper within the Powder River Basin. The picture on the next page shows the potential reservoirs in the field.



Source: DRK

The LAK Ranch property is intersected by two monoclines, Black Hills and Fanny Peak, which delineate the boundary of the region. The Newcastle sands in the field outcrop at the northern and eastern edge of the field, and dip into the basin to a depth of about 2,500 feet in a synclinal form at the southern end. The north and eastern flanks of the syncline dip south and west at approximately 45° in the subsurface for about 1.5 km, but gradually declines to 10° into the basin. The lack of a reservoir seal has made the oil in the field devolitize and biodegrade to a highly viscous 19 degree API gravity oil. The crude is napthenic, and hence, needs to be heated before it can flow out to the surface.

As a result of the combination of complex geology, reservoir heterogeneity, and high viscosity of oil, the field requires an enhanced oil recovery (EOR) technique to recover oil from the reservoir. EOR, as the name suggests, refers to the recovery of oil that cannot be recovered through primary and conventional secondary recovery techniques. EOR methods are typically costlier and carry higher risks (primarily due to uncertainty in recovery rates) than normal recovery methods. In EOR, oil is recovered either through flooding (through water or solutions) or by injecting steam or gas, such as carbon dioxide or nitrogen.

DRK is currently using a thermal recovery technique (steam flooding) to recover oil by introducing heat into the reservoir by injecting steam. As a result, oil viscosity is lowered, which increases the flow rate of oil in the reservoir. Thermal recovery techniques account for over 50% of U.S. EOR production, primarily in California. Steam required in the method is produced from natural gas or coal bed methane (CBM). The major portion of the operating costs in these types of recovery methods is the cost of natural gas/CBM required for generating steam. **One significant benefit to DRK is that, since they are operating in a coal bed methane rich region, they are able to purchase gas at a slight discount to the Henry Hub Gulf Coast prices (discount averages US$0.18/mcf).**

Although oil produced at LAK Ranch is heavy (19-20 API), and naphthenic, it has low paraffin and sulphur (<0.5%) content which makes it high quality. As a result, oil produced in LAK Ranch is sold at a premium to heavy oil (12 - 25API) prices, but at a discount to NYMEX sweet crude oil prices. Details on oil pricing are presented later in the report.

All production to date has been from the shallow Newcastle sands. DRK is currently developing only these sands. The shallow Newcastle sand formation is comprised of two porous zones – the Upper Marine Sands and the Lower Alluvial Sands. The structure of the lower alluvial sands conforms to that of the upper marine sand. The two zones are separated by approximately 10 to 15 ft of shale. The lower Newcastle channel sand, which flows along the eastern and northern edge of the LAK Ranch property, is estimated to cover about 2,545 acres (net pay thickness of 44.6 feet), while the upper marine sands is expected to cover 4,400 acres (net pay average of 18.4 feet). Reservoir characteristics are favorable; with an average porosity of 25%, permeability between 500-1,000 millidarcies, and an average oil saturation of about 65%.

A 3D seismic that was acquired in 2005 provided more detailed geological information on the Northern portion of the property. **In addition to the potential identified in the Newcastle sands, 3D seismic data suggested several exploration targets in deeper**

horizons below the Newcastle formation (Minnelusa and Fall River formations). See picture on page 6 to view these zones. It is conceivable that the deeper horizons might not require EOR techniques to recover oil. Since, exploration risks are much higher for the deeper horizons compared to the low risk Newcastle sands, DRK is initially focusing on developing and producing from the Newcastle sands. DRK intends to move on to the deeper horizons once it generates sufficient cash flows from production from the Newcastle sands.

Previous Operations and Production

The LAK Ranch field was originally discovered in the 1920's. Initially, oil was recovered from hand-dug wells in locations where oil seeps along the Newcastle outcrop. Since then, several attempts have been made by major operators to produce from the field, including Texaco Inc., Conoco Oil Company (NYSE: COP), Parrent Company, Mapco and Surtec Inc. However, none of the attempts led to commercial production. About 33 exploratory production wells were drilled in the field, and three EOR pilot schemes were conducted during the 1950's to 1980's. Even though commercial production was not achieved; all the three EOR attempts demonstrated the technical feasibility of such operations.

1. **Solvent Flooding Technique in 1957-58:** Parrent Company conducted the first EOR pilot operation, a solvent flood recovery technique, in the field in 1957-58. The location was chosen based on the presence of residual crude oil stain at the Newcastle formation outcrop at that site. In solvent flooding, a fluid is injected into the reservoir, which dissolves in the oil it contacts and forms a single liquid. The combined fluid can flow more easily than the original crude through the reservoir to a producing well. A solvent consisting of liquid petroleum and gasoline mixture was injected into the center well at an average rate of 1,000 gallons per day. At the end of the injection phase, the production wells were filled with crude, and one of the wells produced 50 bpd over a two-day period. However, the pilot operations were not continued, due to the death of a principal of the company at that time.

2. **Cyclic Steam Injection in 1965:** Conoco Oil Company drilled five vertical wells in 1965. Steam was injected into two of the wells to evaluate the feasibility of a cyclic steam injection recovery method. Cyclic steam injection is a thermal recovery method in which a well is injected with steam first, shut in for several days for heat distribution, and then finally put into production. The first well, after 31 days of steam injection, (at 572F and 1200 psig), produced 76 bbl of oil in 34 days. The second well, after injection of steam for 20 days (at 575F at 1200-1300 psig), produced 230 bbl of oil in 53 days. Only one cycle was carried out and there was no soak period. The operations were not successful as flow line temperatures declined considerably from initial levels during the flow period. The existing facilities were not capable of reducing heat losses.

3. **Chemical Flooding recovery – 1985 - 95:** In the 1980's Exoil Services/Surtec conducted a chemical flooding recovery technique (with a hot alkaline-surfactant-polymer solution). The injection solution produced with the oil was recycled through the reservoir. The wells produced about 19,100 bbl of oil during 1985 – 1995. There is no indication that any attempts to improve recovery were made during that time. The operation was stopped due to low oil prices and high water oil ratios. **According to a core-flood study conducted**

by Exoil Services on Newcastle cores in 1983, it was determined that steam is the most efficient EOR method (compared to water, gas, solutions) with an average recovery of 57.8% from eight tests. DRK is currently planning to use a steam flooding recovery method to recover oil in the LAK Ranch field.

Pilot production through Steam Assisted Gravity Drainage (SAGD) in 2001-02 recovered 5,200 bbl of oil.

Derek acquired interests on the LAK Ranch property in 1997. The company's initial strategy was to use Steam Assisted Gravity Drainage (SAGD) technology to develop the field. This recovery technique is widely used in the heavy oil producing areas of Alberta and California.

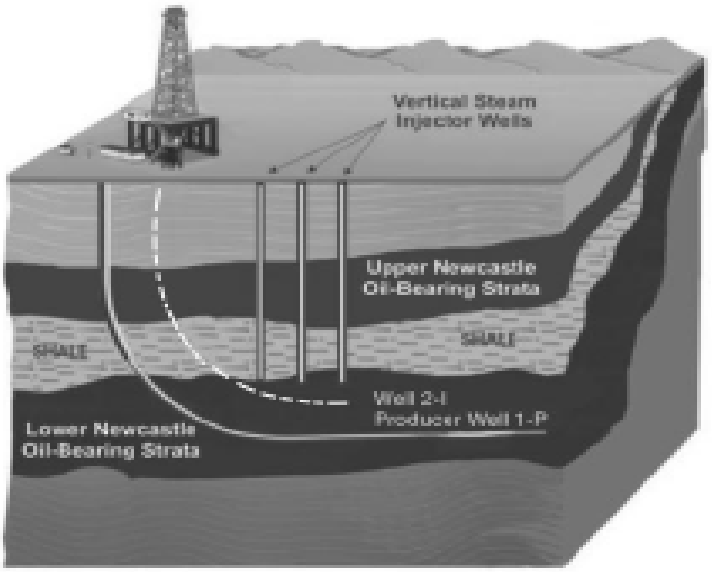
In SAGD, steam is injected into the reservoir through a horizontal well. The pressure of the injected steam causes oil to flow down-dip to another horizontal producer, which is situated below the horizontal steam pipe. Warm oil and water from condensed injected steam is produced from the second horizontal well. Oil and water is separated at the surface. Since the LAK Ranch property is shallow and has a good bed dip, SAGD was thought to be the most ideal recovery technique for the field.

In order to pursue SAGD, DRK drilled four delineation wells in late 1997, and two horizontal wells in 2000. Steam injection was initiated in March 2001, after the generation and injection facilities were constructed. The field produced about 5,200 bbl of oil during 2001-02 through two separate steam/production cycles. Flow rates in the first phase of production were 35-55 bpd per well versus 10-30 bpd per well in the second phase. The considerable difference in flow rates demonstrated the heterogeneity of the reservoir. The pilot production was eventually shut down in late 2002 due to financial constraints. The failure of the project was attributed to some erroneous data reports on older wells and problems due to mud losses during drilling. Also, continuous steam injection was not achieved. However, like the previous EOR projects, this pilot operation also demonstrated the potential of the field.

Partnership with Ivanhoe – The field produced about 20,000 barrels during November 2004- November 2006.

In 2004, DRK established a partnership with Ivanhoe Energy, Inc., a company with extensive experience in heavy oil operations, to develop the project. Ivanhoe then became the operator of the LAK Ranch property. Ivanhoe's strategy for the LAK Ranch project was to implement a modified SAGD to recover oil in the field.

In a modified SAGD, vertical steam injection wells are paired with horizontal production wells. The vertical steam injectors help maximize steam injection and enhance production in the reservoir compared to a standard SAGD operation. The picture on the next page shows the modified SAGD operations on the LAK Ranch field.



Source: DRK

During April 2004 - May 2005, Ivanhoe drilled a delineation well, acquired 3D seismic data over 2,822 acres over the north portion of the property (about 35% of the total project area), and re-commenced a cyclic steam injection. In the last half of 2004, and the first half of 2005, three steam cycles resulted in production of 1,920 bbl of oil. In 2005, three vertical steam injection wells were drilled up dip from the horizontal production well to pursue a modified SAGD. Through continuous steaming, flow rates were increased to 45-50 bpd, which gave further evidence of the feasibility of the project. Total production during June 2004 – November 2006, was over 20,000 bbl of oil. However, it was later determined that possibly only one of three injectors had any effect on the targeted Newcastle pay zone, which led to lower than expected production, and a considerable increase in operating costs.

In December 2006, DRK re-acquired all of Ivanhoe's interest and became the operator of the project. We believe Ivanhoe sold its interest, as the recoverable reserve estimates at this time were lower than their expectations.

Reserves

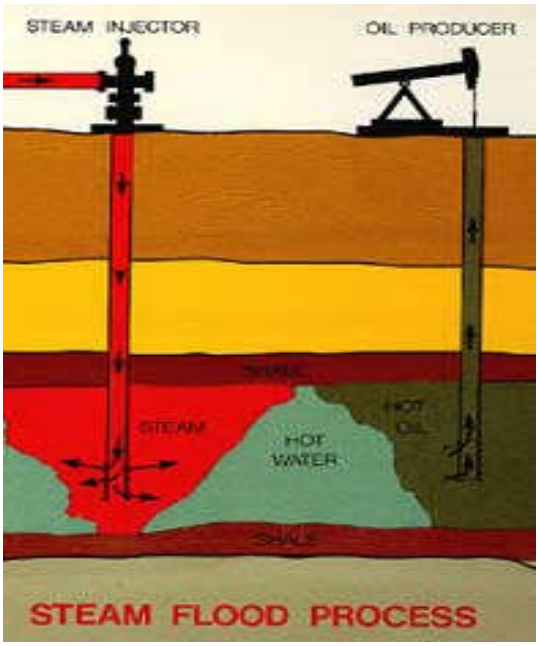
Petrotech Engineering calculated a reserve estimate for the property in 2005 based on the 3D seismic and new geological data available. They determined that the Newcastle lower alluvial sands hold possible reserves of 80.70 mmboe of original oil in place (OOIP) and 13 mmboe of recoverable oil (with a recovery factor of 16.1%). Deducting the oil produced in 2005, the remaining recoverable oil was estimated to be 12.97 mmboe. The Newcastle marine sand was estimated to hold about 57.85 mmboe. However, recovery factors were not determined. **Based on a conservative recovery rate estimate of 16.1% for the upper marine sands as well, we estimate the Newcastle sands to hold potential recoverable reserves of 22.28 mm boe.**

Note that these reserve estimates do not account for the prospective deeper horizon targets (that were identified by 3D seismic) that the company intends to develop later.

Current Operations – Commercial production is expected to commence this summer

After re-acquiring all of Ivanhoe's interests in the project, including the US$1.1 million 3D seismic and all other data on the property, DRK determined that a steam flooding (a thermal recovery process) recovery technique is the most ideal EOR technique to pursue on the field.

Unlike the previously used SAGD, and modified SAGD, EOR techniques that used horizontal wells that are much more expensive to drill, steam flooding (as shown in the picture below) uses only vertical wells for steam injection and production. Heavy oil is recovered by injecting steam into the reservoir through a thermally controlled process. The condensed hot water from injected steam (through vertical injectors) drives oil towards the vertical producing wells. Steam flooding is a widely used EOR technique in California. According to the National Energy Technical Laboratory, oil production from steam flooding averages about 0.5 mm bpd in the U.S.



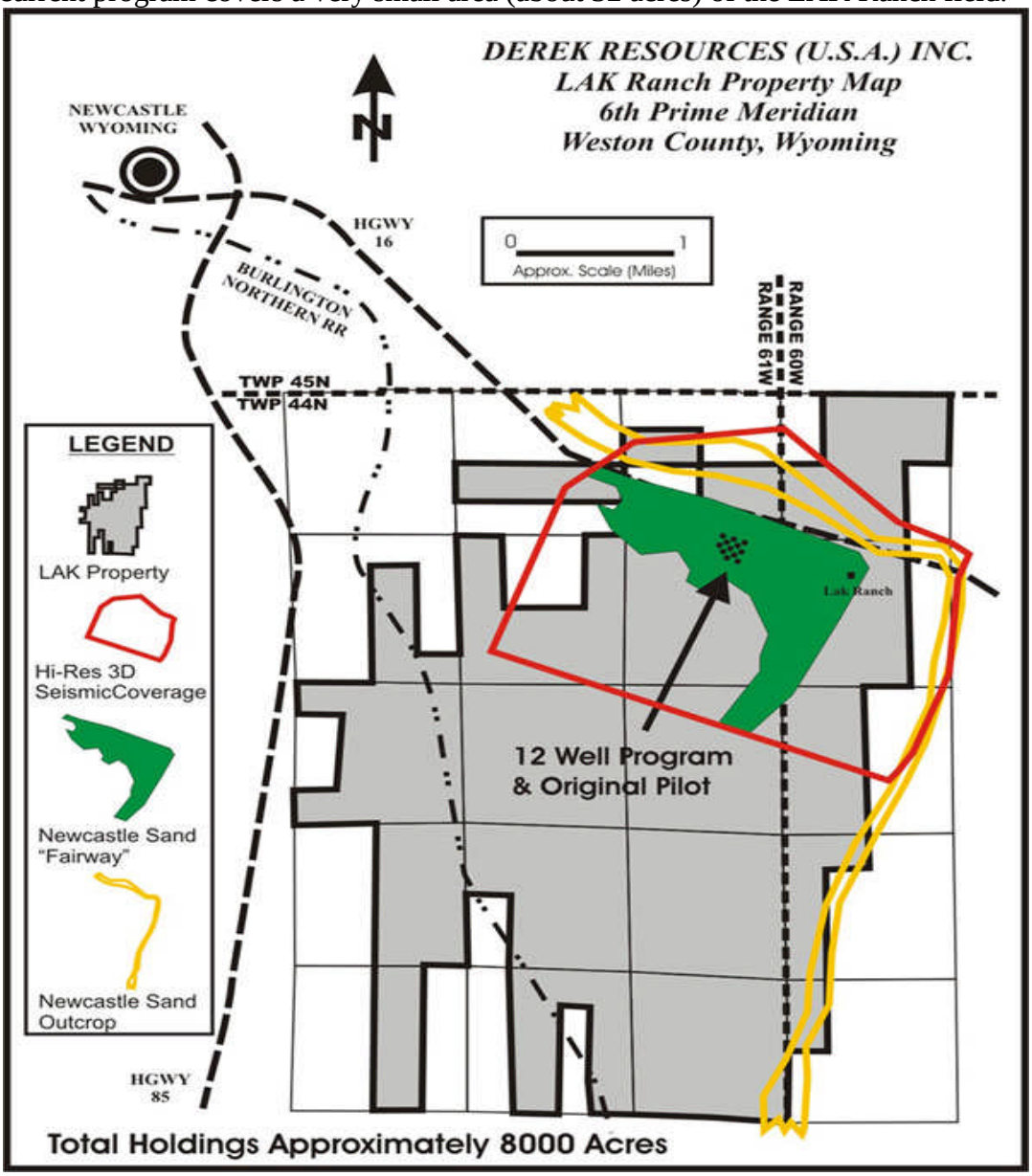
Source: Cano Petroleum

We believe that steam flooding is ideal for the LAK Ranch project at this time due to the following reasons:

- As horizontal wells are not required, the steam-flooding process carries lower costs compared to SAGD and modified SAGD.
- Steam flooding is normally conducted for relatively shallow, permeable and thick, and moderately viscous oil – which are the typical characteristics of the Newcastle sandstone.
- Steam flooding overcomes problems with reservoir heterogeneity.
- A study conducted by Exoil Services on Newcastle cores in 1983 determined that steam is the most efficient way to recover the oil, with an average recovery of 57.8% from 8 tests.
- Another advantage of steam injection is that, in addition to its capability to remove trapped oil, steam reduces the interfacial tensions that tie paraffins and asphaltenes to the rock surfaces and thereby enhances production.

The 3D seismic data acquired from Ivanhoe has been very valuable to DRK in defining the extent of the Newcastle sandstone and identifying several hydrocarbon targets, in addition to delineating potential targets in the deeper horizons.

Recent 12-well program: Derek has decided to initially develop a small area of the property with a 12 well program. The program targets the Newcastle sands reservoir. Derek was able to lower risks through a 50-50 partnership with SEC Oil and Gas for the 12-well program (the company's interest on the total field apart from the 12-well program area stays at 95%). SEC's interest in the 12-well program will drop to 40% after payback. Total costs for the 12-well program was budgeted at US$2.1 million, of which DRK contributed US$1.05 million (50%). The map below shows the location of the recently completed 12-wells in the field. The current program covers a very small area (about 32 acres) of the LAK Ranch field.



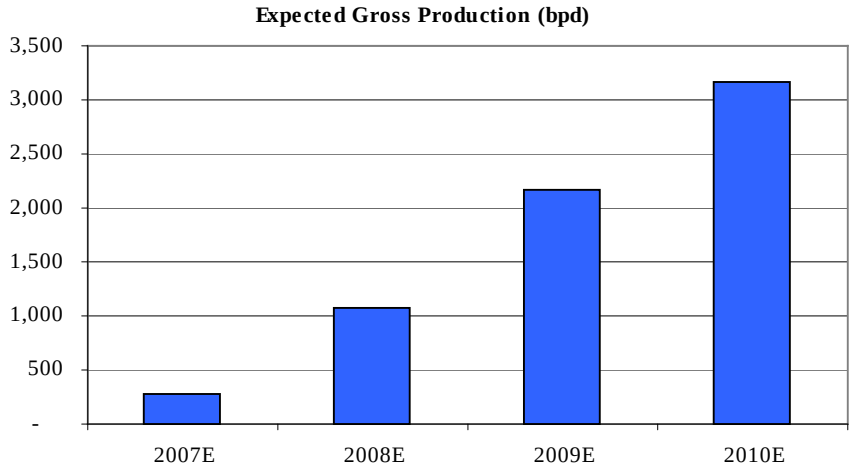
Source: DRK

After receiving permission from the Wyoming Oil and Gas Conservation Commission (WOGCC) in Feb 2007, the company commenced the 12-well program totaling about 13,250 feet in March 2007. Drilling, casing and cementing of all the wells was completed by May 2007. The 12-well program includes four injectors and eight producer wells. Well locations were identified based on 3D seismic. The pay zone is estimated to be about 40-70 feet thick.

The company intends to temporarily inject steam into the eight new producer wells (for up to three weeks) then steam will be injected permanently into the four new injection wells. The idea being that temporary steam injection into the eight producer wells will stimulate oil flow towards the producers, and hence shorten the time to achieve production. Currently, steam is being injected into six wells (two preexisting vertical injectors up dip from the preexisting horizontal well and four new producer wells to the south). The company plans to move the temporary steam lines to the other four new producer wells to the north, after the temporary injection in to the four southern producer wells is completed. The eight new producer wells are expected to commence production this summer.

Based on a conservative estimate of average initial production (IP) of 30-40 bpd from the eight new producer wells, we expect production from the 12-well program to be about 240-320 bpd (gross) by the end of the summer. DRK's share of revenues from this 12-well program will be 50% initially, and then increase to 60% after SEC receives payback.

If the current 12-well program is successful, based on 25 new producer wells per year, we expect average production per day at LAK Ranch to reach about 3,170 (gross) by 2010. The chart below shows our production forecasts.



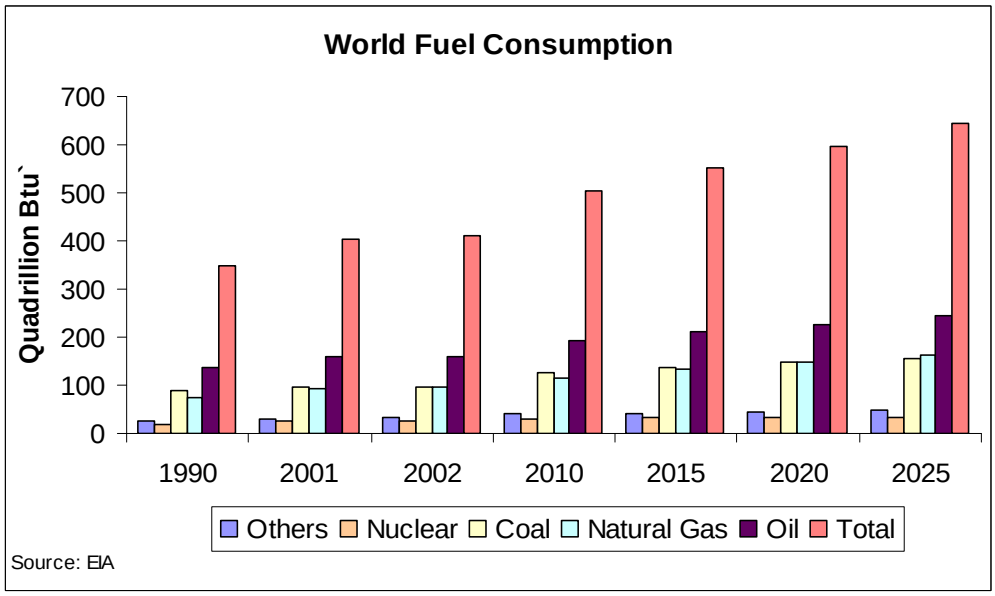
LAK Ranch Oil Pricing

DRK recently revised their contract with TEPPCO Crude Oil, L.P. and oil produced at LAK Ranch now receives a price based on the New York Mercantile Exchange (NYMEX) average monthly futures settlement price for light sweet crude oil (Cushing, UK) less US$7.00 / bbl. *(TEPPCO Crude Oil, L.P. is a crude oil gathering, transportation, storage and marketing company operating primarily in Texas and Oklahoma).* Prior to this, DRK received Wyoming Sweet (Other) pricing plus US$2.25 / bbl. Wyoming sweet crude prices have been quite volatile compared to WTI crude prices since the beginning of 2006. As of

April 10, 2006, Wyoming Sweet (other) was trading at US$47.25/bbl; a discount of US$18.25/bbl from WTI crude prices then. The price differential as of June 6, 2007, was US$10.70/bbl, with Wyoming Sweet (crude) priced at US$52.00/bbl compared to a WTI crude price of US$62.70/bbl. **By tying prices to NYMEX sweet crude prices, we believe DRK will benefit from higher and more stable prices for the oil produced in LAK Ranch.** In the next section, we present our short-term and long-term forecasts on oil and natural gas prices in the region.

Commodity Price Forecast

Growing World Fuel Consumption: According to the Energy Information Association (EIA), total world consumption of fuels will increase at an average of 2% per annum and reach 503 quadrillion British thermal units (btu) in 2010, and 645 quadrillion btu in 2025, compared to 440 (approx.) quadrillion btu at the end of 2005. Global natural gas consumption is predicted to increase at 2.3% per annum, while oil consumption is predicted to increase by 1.9% p.a. through 2025. The chart below presents the forecast increase in demand for various fuels.



Emerging countries in Asia are expected to have the highest growth rate at 3.5% per annum, with Africa (2.7% p.a.) and the Middle East (2.5% p.a.) coming next. North American consumption is expected to grow at 1.4% p.a.

Outlook for Natural Gas

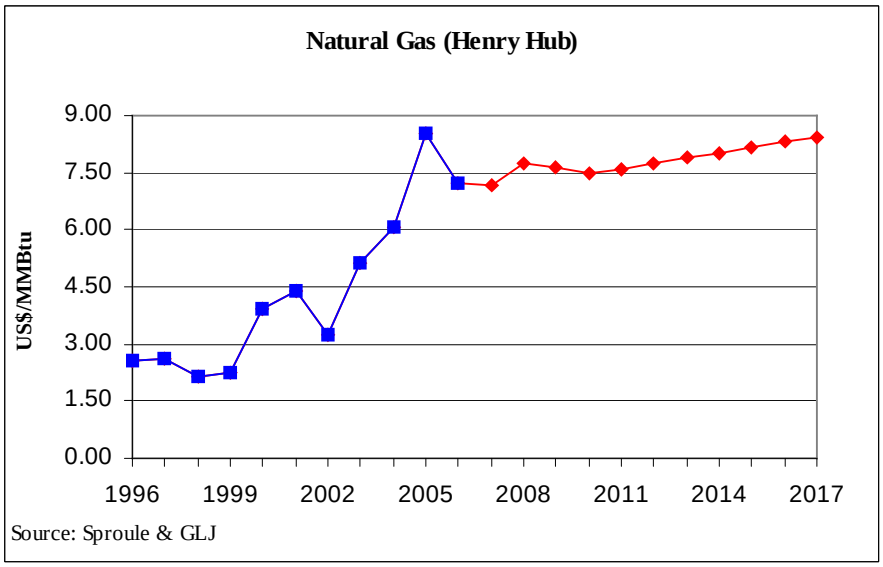
Supply and Demand of Natural Gas: Natural gas around the world is priced based on regional fundamentals (supply and demand), i.e., the prices vary from region to region because other than a small amount of LNG, it is hard to arbitrage gas. We believe that a study of supply and demand of natural gas in North America will help us predict the direction of future natural gas prices in the regions. The table on the next page shows the worldwide supply and demand forecast for natural gas according to the EIA.

North America Natural Gas Supply and Demand - in trillion cu. feet							
	2003	2010	2015	2020	2025	2030	Average 2003-30
Production	27.1	26.4	28.1	29.3	29.9	30.4	**0.4%**
Consumption	27.4	29.6	32.7	34.7	35.7	36.6	**1.1%**
Deficit	-0.3	-3.2	-4.6	-5.4	-5.8	-6.2	

The table clearly shows that demand will outpace supply both in the short-term and long-term.

Price Forecasts: Lower natural gas prices have led to a decrease in drilling activity. We believe that a relatively milder winter all around the world and short-term inventory surpluses are responsible for the current low prices of natural gas. Based on natural gas fundamentals (supply and demand), we believe that natural gas prices will increase in the future.

The chart below shows historic and forecast prices for Henry Hub natural gas. Average prices in 2006 were US$7.23/mmbtu, compared to US$2.55/mmbtu in 1996, which represents a 183.5% increase. The chart shows that prices are expected to remain above historic average prices (US$4.37/mmbtu during 1996-2006) through to 2017.



According to the average forecasts, natural gas prices are expected to stay above US$7.50 / mmbtu through 2017.

Outlook for Oil

World Supply and Demand of Oil: Unlike natural gas, crude oil prices are set in a global market. Prices worldwide tend to move in tandem because of the ability to transport oil more readily than natural gas. The section below presents the forecasted world supply and demand of oil till 2030.

Production is expected to grow at a slower pace than consumption: The table on the next page shows the expected growth in global production. According to the EIA, global

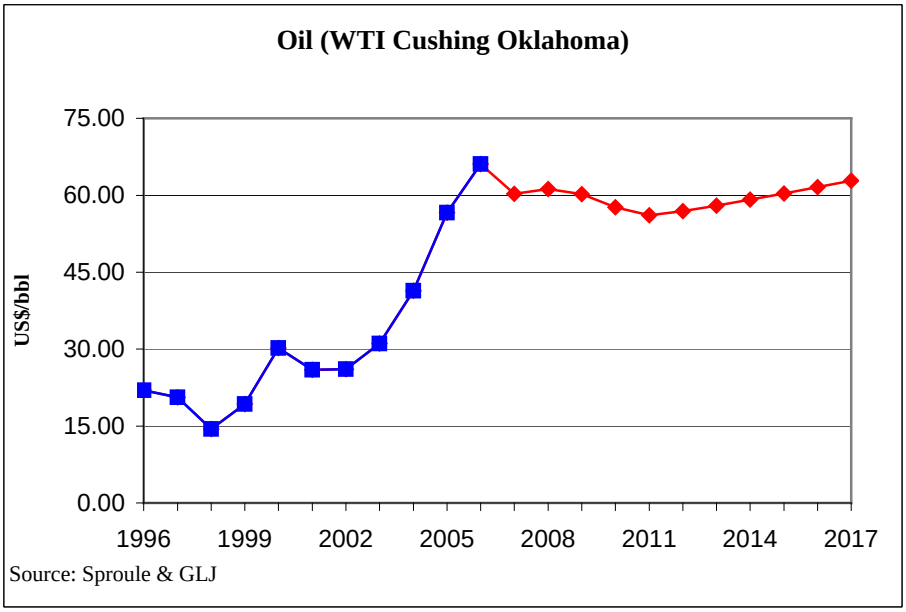
production capacity is expected to rise from 82.3 million bpd in 2003, to 123.30 million bpd by 2030, which reflects a CAGR of 1.5%. Production capacity is expected to increase at a slightly faster rate in OPEC countries (1.6%), while growth in OECD countries is relatively lower (0.4%).

World Oil Production Capacity (1990 - 2030) - mmbpd								
	1990	**2003**	**2010**	**2015**	**2020**	**2025**	**2030**	CAGR 2003-2030
OPEC	27.10	33.00	39.90	42.80	43.90	46.70	50.70	**1.6%**
OECD	20.10	23.20	24.30	24.70	25.50	26.00	26.10	**0.4%**
World	69.5	82.30	94.30	101.60	107.60	114.90	123.30	**1.5%**

Source: EIA

Global consumption of oil is expected to rise by a CAGR of 1.9% during 2002-2025. The supply-demand forecasts show that prices will likely stay at current levels or appreciate going forward.

Price Forecasts: Based on fundamentals, we expect prices to stay above historical averages ($32.16/bbl during 1997-2006). The chart below shows historical and forecast oil prices. The average WTI Cushing Oklahoma oil price in 2006 was US$66.09/bbl, compared to US$56.58/bbl in 2005, an increase of 16.7%. As of May 29, 2007, WTI crude was US$63.15/bbl versus an average price of US$30.22/bbl in 2000. As with natural gas, oil prices are expected to remain above historical averages (US$32.16/bbl during 1996-2006) through to 2017.



Source: Sproule & GLJ

WTI Cushing, OK crude oil prices are forecasted to stay around US$60/bbl through 2017. **Based on a US$7/bbl discount on WTI crude prices, we expect LAK Ranch oil to be priced at about US$53/bbl through 2017.**

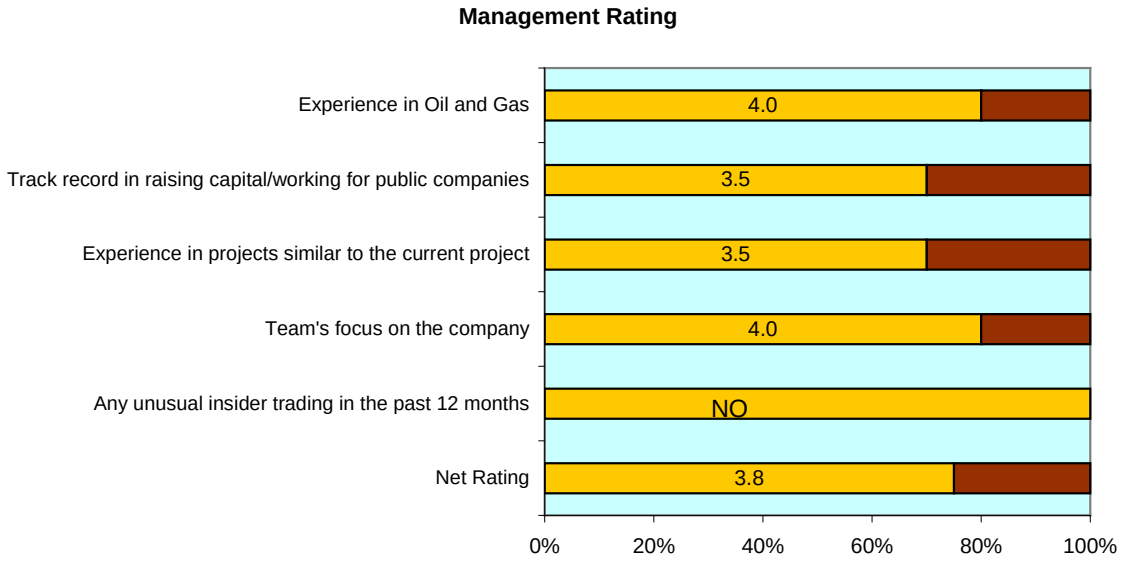
The table below shows the price forecasts for LAK Ranch oil that we have used in our valuation model.

PRICE FORECASTS									
	2007	2008	2009	2010	2011	2012	2013	2014	2015
LAK Ranch Oil (C$/bbl)	64.10	66.49	62.61	58.29	56.47	57.39	58.61	59.99	61.38

Management and Board of Directors

A strong management team is vital for any junior oil and gas exploration and production company. We believe that DRK's management brings considerable value to the company through experience in the oil and gas sector, and extensive experience working in the private and public sector. The company's board of directors has over 100 years of combined education and experience in the oil & gas sector.

Our net rating for DRK's management is 3.8 (out of 5.0), which we have rated as 'Good'. Our proprietary management rating system (shown below) quantitatively assesses the strength of the company's management based on a number of factors, including technical experience, the ability to raise capital, any unusual insider trading by management, and various other factors.



Brief biographies of management and the board of directors, supplied by DRK, follow.

Mr. Barry C.J. Ehrl: **President: C.E.O. & Director**
Barry is a founder of Derek Oil & Gas Corporation with over 30 years of experience working with public companies in the oil & gas sector. Barry is an entrepreneur who has held several senior management positions in public companies and has been successful in raising millions of dollars in capital to fund the exploration & development of projects in North America & internationally. Barry was a fundamental force in the negotiations to acquire the 8000+ acres of prime property in NE Wyoming.

Mr. Alan H. Stevens: **Director**
Mr. Stevens has 35 years experience in technical and managerial positions involving all

phases of hydrocarbon exploration, production, operations, and contract negotiations for both Domestic and International Provinces. Mr. Stevens is a former Vice-President of operations for Occidental Petroleum.

Mr. John Lush: **Director**
John is an international executive with over 35 years of experience in the oil and gas sector. He is currently President of Petroval Pte Ltd. (Singapore), a company specializing in the sales and marketing of crude and refined oil products. With extensive experience gained working in three continents in executive positions with BP, Phibro Energy and Neste, John brings international exposure and years of expertise in the oil industry to the Derek Board of Directors.

Mr. George Eynon, B.Sc. (London), M.Sc. (McMaster): **Director**
Is the current Vice President of Business Development & External Relations for the Canadian Energy Research Institute ("CERI"), a former President of the Canadian Society of Petroleum Geologists and past-Chair of the House of Delegates for the American Association of Petroleum Geologists. George has also worked in senior level positions with companies such as Amaco, Paramount Resources, Superior Oil, Suncor Energy and Bow Valley Energy. For ten years George provided energy and management consulting for companies such as GEOS Energy Consulting, Ziff Energy Group and Cambridge Energy Research Associates. George brings over 30 years of experience in the upstream, oil & gas sector and energy consulting to Derek's Board of Directors.

Mr. Charles B. Crowell: **Director**
Mr. Crowell holds a BA degree from John Hopkins and a Jurist Doctorate from the University of Arkansas. He was admitted to the practice of law in Texas in 1974. Mr. Crowell has been a practicing attorney and a consultant to numerous oil and gas companies for 30 plus years. Charles brings his extensive experience to the Derek Board of Directors as Director of PetroHunter Energy Corporation, Providence Resources Inc., Gasco Energy, Inc., and a former Director of Comanche Energy Inc., Aero Services International Inc., Arakis Energy Corporation and Triton Europe, plc. Mr. Crowell's former positions include, Senior member of Crowell & Bishop, PLLC, Attorneys, Manager & Principal at Enigma Engineering Company, LLC., and Executive Vice President, Administration of Triton Energy Corporation.

Mr. Eike Hamer, MBA: Director
Mr. Hamer holds a Masters in Business Administration (MBA) from the University of Rostock in Germany with extensive studies at the University of Bonn and the University of Osnabrück. Mr. Hamer is current publisher of “Wirtschaft aktuell”. Wirtschaft aktuell is a news letter providing background information on political and economic developments in Europe. The publication was formerly based in Zurich Switzerland and is now attached to the “Mittelstandsinstitut Niedersachsen”. The Middelstandsinstitut Niedersachsen was founded more than 30 years ago and is one of the most prestigious research institutes for entrepreneurs globally. Mr. Hamer’s experience includes being a member of the executive board of the “Deutsche Mittelstandsstiftung”, a well known foundation in Germany and is the current CEO of ELUX Wealth Management, an investment advisory corporation.

Financials

The table below shows the company's cash and liquidity position at the end of Q3-2007 (January 2007).

	2004	2005	2006	2007 (9 mo)
Cash	632,700	1,008,208	1,652,370	1,391,923
Working Capital	440,749	874,214	1,694,856	1,436,791
Debt / Capital	-	-	-	-
Cash flows from financing	1,893,035	1,774,704	1,874,700	1,439,689
Burn Rate	(105,766)	(116,600)	(102,545)	(188,904)

Cash and working capital at the end of Q3-2007 were $1.39 million, and $1.44 million, respectively, compared to $1.65 million and $1.69 million at the end of FY2006 (April 2006). Since the company has not yet started commercial production, it has yet to report any significant revenues. Net loss for the nine month period ended January 2007 was $0.95 million (eps: -$0.02) versus $0.86 million (eps: -$0.03) during the same period in the previous year. We estimate the company had a burn rate (sum of negative cash flows from operating and investing activities) of $0.19 million per month during the first nine months of FY2007, versus $0.12 million per month in the comparable period. Based on the recently completed 12-well program, we expect the company to spend approximately $1.5 million in 2007.

The company funded all its expenses through equity issuances in the 9-month period in FY2007. DRK raised $1.44 million during the first nine months of FY2007, versus $1.94 million in the comparable period.

Most recent financing: In January 2007, the company completed two non-brokered private placements and raised $1.82 million. DRK issued a total of 5.2 million units (each unit consists of 1 common share and one half share purchase warrant) at a price of $0.35 per unit.

Stock options and warrants: At the end of January 2007, the company had 3.97 million stock options outstanding with a weighted average exercise price of $0.43, and expiry dates between July 2008 and December 2011. DRK also had 4.13 million warrants outstanding (all the warrants are 'out-of-the-money' at this time) with a weighted average exercise price of $0.58, and expiry dates between November 2007 and January 2009.

Conclusions: Based on cash on hand of $1.39 million at the end of January 2007, and the expected capital expenditure of $1.5 in FY2007, we estimate the company will require an additional $1.0 million in 2007. We are expecting DRK to start generating revenues as commercial production commences at the LAK Ranch property this summer. We believe that cash from operations will support the company's capital expenditures from 2008 onwards, which means that the impact of stock dilution on our valuation will be minimal.

Valuation

At this time we value the company based on the value of the oil held only by the shallow Newcastle sands. Based on a recovery rate of 16.1% for both the lower alluvial and upper marine sands, we estimate the Newcastle sands to hold possible recoverable reserves of 22.28 mmboe. The table on the next page shows our estimate of the risked reserves.

	Possible Reserves	Recovery	Recoverable
Newcastle lower alluvial sands	80.56	16.1%	12.97
Newcastle upper marine sands	57.85	16.1%	9.31
Total - Newcastle Sands	138.41	16.1%	22.28
Discount (%)			75%
Risked Reserves (mmboe)			**5.57**

Since we have higher confidence in recoverable reserve estimates, we discount the recoverable possible reserve estimates only by 75% (instead of the conventional discount factor of 90%). Discounting the total recoverable reserves by 75% gives an estimate of the total risked reserves held by the Newcastle sands as 5.57 mmboe.

Our fair value estimate on DRK, based on the net asset value (NAV) of the LAK Ranch property (shown below), is $0.89 per share.

NET ASSET VALUE					
	0%	**5%**	**10%**	**15%**	**20%**
NPV (before tax)	94,716,619	77,187,023	63,710,353	53,199,355	44,893,125
NPV	69,600,575	56,618,275	46,648,354	38,880,868	32,749,371

NAV (@ 15%)	38,880,868
Working Capital	1,436,791
No. of Shares	45,126,536
Fair value per share	**$0.89**

The following inputs were used to determine the NAV.

INPUTS	
Working Interest	
LAK Ranch	95%
12-well program	50%
Net Revenue Interest (NRI)	
LAK Ranch (after state tax)	66%
12-well program (after state tax)	37%
Production Commencement	August 2007
Production Period	7 - 8 years
Initial Production (IP) - 2007+	50 bbl / well
Average Operating Costs	$25.17 / bbl
Natural gas required per bbl	1.5 mcf
Initial Cost	$200,000 per well

Rating

We believe DRK is well positioned to put the LAK Ranch property into commercial production for the first time since its discovery in the 1920's. **Based on our valuation model and analysis of the potential of the LAK Ranch property, we initiate coverage on DRK with a BUY rating and a fair value estimate of $0.90 per share. Our fair value estimate reflects an upside potential of 125% from current price levels.**

The fair value estimate does not account for the potentially recoverable oil that is held in the

deeper horizons of the field. We believe the stock will move closer to our fair value estimate as commercial production commences this summer. However, investors should note that the current development program is very important for the company, as it will give them significant insights on the long-term potential of the LAK Ranch project. An unsuccessful development program will put downward pressure on our valuation.

Risks

The following risks, though not exhaustive, will cause our estimates to differ from actual results:

- DRK is exposed to all the risks associated with any other exploration and production company.
- The LAK Ranch property requires an EOR method to recover oil in the field. Even though all the previous production attempts have indicated that oil recovery is possible in the field, actual oil recovery rates could be very different from current estimates.
- Success of the project will depend heavily on the results of the development program in 2007.
- Even though we expect the company to start generating revenues this summer, access to capital is very crucial to be able to continue pursuing exploration and development programs.
- Volatility in commodity prices – As revenues are directly related to commodity prices, growth and profitability of the company will depend heavily on oil prices. High natural gas prices relative to oil prices will negatively impact the company's profitability.

Based on the above-mentioned risks we rate the shares Risk 5 (Highly Speculative).

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

Disclaimers and Disclosure
The opinions expressed in this report are the true opinions of the analyst about this company and industry. Any "forward looking statements" are our best estimates and opinions based upon information that is publicly available and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. The analyst and Fundamental Research Corp. "FRC" does not own any shares of the subject company, does not make a market or offer shares for sale of the subject company, and does not have any investment banking business with the subject company. Fees of less than $35,000 have been paid by DRK to FRC. The purpose of the fee is to subsidize the high costs of research and monitoring. FRC takes steps to ensure independence including setting fees in advance and utilizing analysts who must abide by CFA Institute Code of Ethics and Standards of Professional Conduct. Additionally, analysts may not trade in any security under coverage. Our full editorial control of all research, timing of release of the reports, and release of liability for negative reports are protected contractually. To further ensure independence, DRK has agreed to a minimum coverage term including an initial report and three updates. Coverage can not be unilaterally terminated. Distribution procedure: our reports are distributed first to our web-based subscribers on the date shown on this report then made available to delayed access users through various other channels for a limited time. The performance of FRC's research is ranked by Investars. Full rankings and are available at www.investars.com.

The distribution of FRC's ratings are as follows: BUY (85%), HOLD (7%), SELL (4%), SUSPEND (4%).
To subscribe for real-time access to research, visit http://www.fundamentalresearchcorp.com/subscribe.php for subscription options.

This report contains "forward looking" statements. Forward-looking statements regarding the Company and/or stock's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company's periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward looking statements, Fundamental Research Corp. and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report. A report initiating coverage will most often be updated quarterly while a report issuing a rating may have no further or less frequent updates because the subject company is likely to be in earlier stages where nothing material may occur quarter to quarter.
Fundamental Research Corp DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE'S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO. This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated, and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. Additional information is available upon request. THIS REPORT IS COPYRIGHT. YOU MAY NOT REDISTRIBUTE THIS REPORT WITHOUT OUR PERMISSION. Please give proper credit, including citing Fundamental Research Corp and/or the analyst, when quoting information from this report.

Fundamental Research Corp is registered with the British Columbia Securities Commission as a Securities Adviser which is not in any way an endorsement from the BCSC. The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.