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Calgary Company Sets Chase For Kiwi Rewards

By Lynda Harrison

A 40-year history of proven hydrocarbons; largely unexplored territory; a stable, eager government and low well-density are just a few of the reasons Calgary-based TAG Oil Ltd. is convinced its upcoming 16-well exploration drilling program in New Zealand will succeed.

The company has developed a drilling plan that combines shallow (less than 2 500 metres), low-risk oil opportunities with deeper (4 000 metres), high-reward gas opportunities.

TAG's primary exploration area is within the onshore Taranaki Basin of the west-central North Island.

It is the only existing oil and gas production area of New Zealand and has the associated infrastructure necessary to bring new discoveries to early commercialization, said Drew Cadenhead, president, chief executive officer and director.

Within the eastern part of the Taranaki Basin is a proven discovery "fairway" that extends in a north-south direction to the east of Mount Taranaki.

The onshore region has been producing from about a dozen pools for more than 40 years and is well serviced by all-weather roads as well as 3 400 kilometres of gas and oil pipeline infrastructure – much of it underutilized, said Cadenhead.

All seven of TAG's Taranaki permits are situated within this fairway, in many cases surrounded by existing pools, he added. Three of TAG's prospects in the northern section of Taranaki have aggregate 50% probability resource potential estimates of about 11 million to 15 million bbls of oil and 65 bcf of gas, as determined by Sproule International.

Three of the company's prospects in the southern part of Taranaki are adjacent to proven pools and in October TAG is set to drill one of these prospects, Konini 1, which has a resource estimate probability of 50% for finding three million to five million bbls of oil.

TAG has conducted seismic testing on the east coast of the South Island in the Canterbury Basin. This basin has a similar style to the prolific oil and gas areas of southern Australia, California and the Gulf of Mexico, Cadenhead said.

It's a largely unexplored region of New Zealand, and two of four offshore wells drilled to date in the basin have discovered hydrocarbons, he noted.

The company has three permits in the Canterbury, totaling four million acres (1.4 million acres net) – which is larger than the entire Taranaki Basin.

TAG's offshore petroleum exploration permit 38258 contains a number of large prospects and leads. Based on the results of previous drilling and testing, Sproule has estimated the resource potential of one of TAG's offshore prospects, Corvette, at 700 bcf and 150 million bbls of oil on a 50%-probable basis.

The company is particularly keen to go after its Kate prospect, an onshore prospect at Canterbury, said Brian Jones, executive vice-president. "It's sort of like the old-Oklahoma, Jed Clampett-type thing," said Jones.

TAG conducted a single, two-dimensional seismic program there this year just to make sure what it saw at the surface continues at depth, and it did, so the company plans for additional 2-D in the next few months, he added.

October 3 2005: Calgary Company Sets Chase for Kiwi Reward (Continued from Page 1)

A potential reservoir was located at approximately 1 200 metres and if the reservoir structure is full, TAG's volumetric calculations indicate as much as 200 million bbls of oil may be associated with the structure.

"It could be that it's just more sensible, given the geology, for us simply to identify an optimum drilling location and just poke a hole in and see what we get," said Jones.

The Kate prospect is located at a surface anticline which is essentially a 15-square-kilometre mound protruding out of the surrounding Canterbury Plains, said Cadenhead.

A number of high-grade oil seeps are visible at the surface along the perimeter. The seeping oil has been confirmed as 'thermogenic,' which basically means oil is not coming from an old, buried car," he said.

TAG aims to build its reserve and cash flow base on several shallow oil targets that are drill-ready and awaiting rig availability. The company expects six to eight of these shallow wells will be drilled over the next 12-18 months.

Given the type of crude that is usually found (sweet 42-degree API), development costs are low, and there is generally little formation water associated with the Miocene-aged reservoirs, said Cadenhead, adding crude can be locally trucked to a point of sale. Cash-generation is immediate and operational costs are low, he said.

Complementing TAG's shallow, low-risk oil program are several deeper, primarily gas-prone prospects which Cadenhead called the company's "home-run swings." While they are world-class prospects, they also have higher drilling costs and are higher-risk, he said.

Another reason TAG believes New Zealand has the potential for large-scale discoveries is the low drilling density. The Taranaki region, for instance, has about one well for every 120,000 acres, while Western Canada has one well for every 1,500 acres, said Jones.

In the South Island's Canterbury Basin, drilling density drops to one well for every 600,000 acres.

New Zealand's high demand for gas and existing infrastructure further fuel TAG's dreams of prosperity.

Its huge Maui reservoir has met 85% of the country's total natural gas demands since the early 1980s but that won't last much longer, said Jones.

An independent "re-determination" found a steep decline in the reserve and though new sources of gas are due to come onstream in the next 18 months, there is still a considerable gap between what can be supplied and what will be needed.

Preferring domestic supply to imported liquefied natural gas, in January 2005 the country's government created incentives for exploration. Between now and December 2009, the wellhead royalties have been reduced to one per cent for gas and five per cent for oil.

The accounting profits royalties have been reduced to 15% on the first \$750 million of gross profits for offshore discoveries and 15% on the first \$250 million of gross profits for onshore discoveries. Above those thresholds, accounting profit royalties are fixed at 20%.

Furthermore, the New Zealand government has acquired large amounts of high-quality 2-D seismic over under-explored areas of the country at its own cost, and is providing the data for free to potential explorers.