

TAG Encouraged by Signs of Oil at Waitangi Hill

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CANADIAN junior TAG Oil has encountered a strong "oil-wet" gas kick and some significant downhole pressure during drilling of its first well appraising the shallow historic Waitangi Hill oil seeps on the East Coast of the North Island, New Zealand.

The company said last night that Waitangi Hill-2, the first stratigraphic well in its initial three-well Waitangi Hill program, had been drilled to a total depth of 171m and preliminary results, including "free oil" in core samples, further indicated the area had active oil and gas generation and expulsion.

"We are extremely encouraged by the positive results of this well, which has proven the Waitangi Hill area has an active light oil and gas generating system in place," TAG Oil chief executive Garth Johnson said.

"It has further de-risked and validated the prospectivity and significant potential of the underlying unconventional fractured oil shale play."

He said that Waitangi Hill-2 experienced a strong "oil-wet" gas kick, combined with some (unspecified) significant pressure, at a depth of 149m, which was addressed before drilling continued to 171m where a conventional sandstone reservoir was encountered and a core "streaming free oil" was retrieved.

The kick confirmation of light gravity oil generation led to the well's suspension for safety reasons at a depth of 179m.

Gas, oil and core samples retrieved while drilling had been sent to laboratories for further analysis prior to planning the next two Waitangi Hill wells, which would use equipment more capable of handling these anomalously pressured shallow oil and gas zones.

The objective of the Waitangi Hill stratigraphic wells is for TAG to start collecting the first modern core data from the Waitangi Hill oil seep discoveries of the early 1900s.

The modern data is needed to enhance TAG's ability to appraise possible development of the conventional Waitangi Hill shallow oil and, more importantly, to further assess the viability of the underlying Waipawa Black Shale and Whangai Shale source rock formations as unconventional targets.

"At each stage of exploration thus far, we have continued to confirm the key attributes that support a significant unconventional oil shale play within the Waipawa Black Shale and Whangai Shale source rocks," Johnson added.

He said key attributes of the Waipawa and Whangai were:

- high-quality light sweet crude has been generated and is being expelled;
- the 50-degree API oil has been geochemically typed to these shales;
- the shales are naturally fractured, mature and accessible at shallow depths due to recent uplifting;

- the smectite-rich clay formation located immediately above the shales exhibits all the attributes of a competent seal;
- over-pressures have been previously noted in the East Coast Basin due to competent seals and rapid uplift;
- oil and gas seeps throughout TAG's 2.4 million acres confirm the Waipawa and Whangai formations are widespread.

"We are pursuing the unconventional fractured oil-shale play through phased operations designed to de-risk the play safely and cost-effectively," he added.

TAG holds 100% of onshore East Coast Basin leases – PEP 38348 (Waitangi), PEP 38349 (Boar Hill) and PEP 50940 (Nicks Head) – and is pursuing both conventional and unconventional fractured oil shale prospects over all three leases.