



TAG Oil Adds Production And Development Projects To Its Exploration Portfolio In New Zealand

TAG Oil is based in Canada and listed on the Toronto Stock Exchange, but it is focused on exploring the Taranaki, East Coast and Canterbury Basins in New Zealand. Previously the preserve of large oil companies, New Zealand has become a good place for small cap companies like TAG Oil. There is low political risk. The government, keen to attract explorers as energy demand rises, has introduced a benign taxation regime. Above all the country is an established hydrocarbon province, which is under-exploited overall and, in parts, heavily under-explored.

After three disappointments with wells in 2004, and then late in 2005 a further setback when the Konini-1 well in the Taranaki Basin had to be plugged and abandoned, there was finally some exploration success with the SuppleJack prospect on PEP 38765 (TAG: 13.33 per cent) in the Taranaki Basin. This came good in February this year (2006) on a renewed visit.

Since then TAG has bought into some development opportunities with the Radnor production station in the Taranaki Basin and purchased some production on the proven Cheal Oil Field, again situated in the Taranaki Basin. The company has thus now achieved a balance of production, development and exploration albeit in a modest way. But there is still a lot to play for in that the company has now assembled a portfolio of 20 oil and gas exploration permits totalling 5,013, 386 gross acres (net 1,854,809). Most of these (15) are in the established Taranaki Basin where TAG is focusing on shallow oil and gas pools in known Miocene reservoirs and deeper prospects in the producing Tariki and Kapuni Sands, which are widespread throughout the Basin.

There are also intriguing prospects on the frontier, under-explored Canterbury and East Coast Basins.

The SuppleJack project was a triumph of faith over experience. Just after Christmas 2005 TAG was able to announce the drilling of the SuppleJack South-1 well which was a follow up to the SuppleJack-1 dual gas/condensate discovery made earlier in 2005. This flowed 640,000 cubic of gas per day plus condensate during testing. The operator Austral Pacific believed SuppleJack South-1 intersected the edge of a trap with a possible extent of 1 sq km.

A new well SuppleJack South-1a was drilled to a total depth of 2.094 metres. The main target SN-O Sands were successfully penetrated 18 metres updip of SuppleJack South-1. The 5 metre gross sand was interpreted to be gas bearing. The joint venture agreed to run production casing in the SuppleJack South-1a in preparation for completion operations. It was at this point the venture partners including the operator got cold feet and did not want to continue.

TAG accordingly decided to sole risk the venture and have another go. In February with more than touch of triumphalism CEO Drew Cadenhead announced: "Usage of under perforation techniques on the SuppleJack South-1a well has yielded gas, a significant improvement over prior results achieved by the two original partners on the project. We are building up to a multi-well, multi-formation commercial project at SuppleJack."

TAG has subsequent to this announced a development project. The company has agreed

to earn a 33.33 per cent operating interest in PML 38157, including a 33.33 per cent equity ownership on the Radnor production station located in the Taranaki Basin, in return for paying 66.66 per cent of the costs to drill and complete a sidetrack well (Radnor 1a) from the Radnor 1 well site.

PML 38157 contains the Radnor-1 discovery that previously flowed natural gas and condensate at average rates of 6 million cubic feet of gas per day and 350 barrels of oil per day before water influx occurred. Radnor 1a will whipstock the original Radnor-1 wellbore and target the McKee Sands at a depth of approximately 13,500 feet (4,100 metres). TAG has initiated the process to secure the Parker Rig 188 to drill Radnor-1a in June or July 2006. The whipstock operation is expected to take four weeks to drill. This acquisition plus some new permits planned means capital expenditures are likely to increase by 21 per cent this year.

The company has most recently announced that it has agreed to buy 100 per cent of Cheal Petroleum Ltd PEP 38757 and PEP 38758 from parent company South Pacific Lease Operations. Cheal Petroleum holds a 30.5 per cent interest in the Cheal Oil Field and a 15.1 per cent in the Cardiff Deep gas discovery PEP 38757 and PEP 38758 hold 5 per cent Gross Over Riding Royalties in the two PEPs in the Taranaki Basin.

During periods of production testing during 2005, the newly discovered Cheal oil pool produced over 90,000 barrels of oil, 37,000 barrels from the Cheal A3X well and 54,000 barrels out of the Cheal A4 well. These are now ready for permanent production. In addition, four further wells Cheal A5, Cheal A6 (development wells) and Cheal B1 and Cheal B2 (exploration wells) are scheduled for drilling later this year following a 3D seismic.

The two production wells are currently producing 600 barrels of oil per day total with plans to increase production to 2,000 barrels per day with the four development and exploration wells.

Sproule International, independent evaluators, have assigned the Cheal Oil pool Gross Proved Undeveloped Reserves of 1.6 million boe and Gross Probable Reserves of 1.8 million boe for a proven, probable and possible reserve total of 5 million boe. This would give the field a 18.6 year reserve life.

Cash flow for TAG is therefore not too far distant and there is still plenty of upside. Although the Taranaki Basin has established recoverable reserves of approximately 7 trillion cubic feet of gas and 500 million barrels of oil it is lightly drilled with only one exploration well per 120,000 acres for a total of just 350 wells. The other frontier basins the Canterbury Great South Basin and the East Coast Basin are virtually unexplored.