

Niko reports Q1'2007 results and operational update

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Company: Niko Resources Ltd.

Rating: Outperform **Target Price:** \$83.00

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For the first quarter, Niko has reported total production of 15,199 Boe/d, consisting of 366 Bbl/d of oil and 89 Mmcf/d of natural gas. This compares favourably to our forecast of 13,537 Boe/d (370 Bbl/d of oil and 79 Mmcf/d of natural gas).

Cash flow from operations came in slightly behind our forecast at \$14.7 Mm or \$0.38 per share, versus our estimate of \$16.7 Mm or \$0.42 per share. The reason is due to weaker realized pricing primarily at Feni, which is being accrued at US\$1.75 per Mcf in the quarter, whereas in previous quarters it was being accrued at US\$2.20 per Mcf.

There is also indication that operating costs are trending higher and are anticipated to average \$0.35 to \$0.40 per Mcfe in Fiscal 2007, whereas we are currently modeling ~\$0.22 per Mcfe. We will look to get more details once the complete MD&A and financial statements are released, at present only a summary of the quarter's activity is available.

We maintain our 12 month target price of \$83 per share and Outperform ranking.

Operational Update

Hazira: oil production began in March 2006 and averaged 276 Bbl/d for the quarter (FCC 300 Bbl/d).

D6 Block: Drilling operations have resumed with the mobilization of two deepwater drillings rigs, one arrived in July 2006 and the second is expected to arrive in August 2006. The plan is to continue evaluating the Cretaceous prospectivity of the Block following the MA-1 oil and natural gas discovery announced earlier. After the Cretaceous wells, further drilling to evaluate prospects in deeper water depths identified by 3-D seismic will commence, utilizing the two contracted rigs as well as a third rig scheduled to arrive in November 2006. Design and installation of production facilities is well under way and major tender packages have been issued and the construction of the natural gas plant site is substantially complete.

NEC-25: A jack-up rig is scheduled to commence drilling an eight well program, following up on the six natural gas discoveries made on the block to date. Development plans for the six discoveries, which have been declared commercial by the Indian regulatory authorities, are being prepared with a target for commencement of production in late calendar 2009.

Cauvery: Niko has been granted the Production Exploration License. A 550 km² 3-D seismic program is scheduled to commence this month with a multiple well program planned to commence in early 2007.

D4: The 2,365 km seismic program has been completed and is currently being tested. An 1,800 km² 3-D seismic program is expected to commence in calendar 2007, followed by exploratory drilling.

Feni and Chattak: Proposed activities have been postponed pending further developments in the various disputes between Niko and the Government of Bangladesh. At Chattak, three drilling locations have been identified on the western part of the structure, while one location has been identified on the eastern side.

Block 9: The 620 km² 3-D seismic program over the Lalmai/Bangora anticline is complete and processing is near completion. The commissioning of natural gas production and processing facilities was completed during the quarter. Production from the Bangora-1 well has averaged 50 Mmcf/d of natural gas production (33 Mmcf/d net) since being placed on production and Niko expects commerciality to be declared in Fiscal 2007. The Bangora-2 well encountered natural gas pay similar to that encountered by Bangora-1, the well was recently

completed for production. Niko's in house appraisal of working interest proved reserves at Block 9 has increased by 54 Bcf as a result of production data from Bangora-1 and analyzing data obtained from drilling Bangora-2. Drilling of Bangora-3 commenced in July 2006 and will be followed by two more appraisal wells.

Thailand: Acquisition of a 150 km² 3-D seismic program commenced in June 2006 on the South Fang Block and is expected to be completed in August 2006. Drilling of several exploratory is expected to commence late in the third quarter of Fiscal 2007. Plans are underway to commence re-completions on existing wells in the Mae Soon oil field in the second quarter of 2007.