Westpac
Institutional Bank

A division of Westpac Banking Corporation incorporated in Australia

Corporate & Institutional Relationships
Level 15, 157 Lambton Quay
PO Box 691, WELLINGTON
New Zealand
Telephone: +64 4 381 1429
Facsimile: +64 4 470 8204
Email: malcolm_allan@westpac.co.nz

9 June 2003

Mr. C Tan
Chief Financial Officer
Todd Petroleum Mining Company Limited
P O Box 3141
Wellington

Dear Calvin

RE: JOINT MARKETING AND SELLING OF GAS FROM THE POHOKURA FIELD

The New Zealand Commerce Commission ("NZCC") has issued a draft determination that would allow the joint marketing and selling of gas from the Pohokura field, but subject to a number of conditions. Todd Petroleum Mining ("Todd") has requested Westpac to indicate what implications these conditions would have on its ability to raise limited or non-recourse financing to assist with development of the Pohokura field.

To this end, please find attached some general comments in regards to principles that would likely be applied and the basis upon which Westpac would normally consider providing non-recourse financing to a joint venturer for development of an asset of this nature. Where a project is a significant proportion of shareholders funds, these same principles will also influence recourse financing. Please note this letter is not an offer to provide financing, and is not intended to constitute any form of commitment by, or legal obligation of, Westpac to provide an underwriting of financing. Any final proposal will be conditional on appropriate due diligence. Westpac does acknowledge that this letter may be produced in evidence by Todd to the NZCC.

The non-recourse project financing of a gas field development will require consideration of many factors, including:

- Gas reserves – the nature, quality & quantity of reserves to be produced. Normally only 1P reserves will be taken into consideration when financing on a non-recourse basis. To the extent that there is a reasonable expectation that 2P reserves will convert to 1P, and there is sufficient support for marketing agreements with off-takers to reflect this, lenders may be prepared to take into account a level of 2P reserves;

- Sponsor(s) - technical expertise and financial capacity of field operators and JV partners;
- Costs and technical profile of field development, sensitivity to gas production volumes and gas prices, the gearing level, amortisation profile and coverage ratios of the project;
- Off-taker(s) - terms (i.e.: duration, volume, pricing) of hydrocarbons marketing agreement and financial strength of off-taker;
- Market – forecast gas price fluctuations, the industry in general, the country's regulatory regime.

Consequently, the ability to arrange a Project Finance ('PF') facility for the development of Pohokura is likely to be restricted if the NZCC imposes:

1. 5 year duration of the NZCC Authorisation;
2. A requirement for first production and full production capability within a specified time; and
3. Limits on the assignability of the Authorisation to successors.

The reasons why we hold this view are as follows:

1. 5 year duration of JV authorisation:

A project financing facility (size, tenor and amortisation profile) is based on the Net Present Value and Debt Service ratios calculated from the forecast future cash flows to be generated by the field. Generally, consideration would be given to cashflows expected to be generated over the full life of the project. For a gas production project where there is not a liquid and established spot gas market (ie. New Zealand), Westpac will require fixed price, fixed volume contracts for a term in excess of the loan term. In other words, Westpac will only take into account gas that is pre-sold on acceptable contract terms.

A limitation on the NZCC Authorisation to five years exposes the project to the risk that the Authorisation will not be renewed at the end of year five. A consequence of this is that gas sales contracts will be limited in tenor to five years or, if longer tenor, will require early termination rights if the Authorisation is not renewed. As such, an Authorisation limited to a 5 year term would limit a project finance facility to no more than 5 years (fully amortising) compared to a field production life of 15+ years, and would result in an extremely low amount of debt – effectively making non – recourse debt financing of this project untenable.

2. Timeframe for the field to be developed within a certain time:

The possibility that the Authorisation may be cancelled if gas production is not achieved within a pre-determined timeframe would result in project financing only being available after the field is developed. Westpac could not take the risk to finance a project where income/source of repayment could be jeopardised if development is not completed within a specified timeframe.

3. Limits on assignability of the Authorisation to successors:

The condition to restrict assignment of the Authorisation is obviously unattractive to the joint venturers as it limits their ability to dispose of their joint venture interests. From Westpac's perspective however, it would be essential to have an unfettered right to dispose of a joint venturer's interest in the event that the borrower was unable to meet its financial obligations. It would be unacceptable if there was the potential for the Authorisation to lapse in a situation where Westpac was seeking to enforce its security interest in the joint venture.

We would be pleased to discuss these issues in more detail should you wish.

Yours sincerely

pp Michael Cleary
Director
Project & Structured Debt

Malcolm Allan
Head of Energy & Resources, New Zealand