

Karoon Gas drill results key for Brazilian oil project

PUBLISHED: 0 hour 3 MINUTES AGO | UPDATE: 0 hour 3 MINUTES AGO PRINT EDITION: 26 Nov 2014



A new non-executive chairman for Karoon Gas is due to be appointed by the end of the year, with executive chairman Bob Hosking (pictured) then to take the role of managing director.

Photo: Paul Jones

Angela Macdonald-Smith

Karoon Gas Australia is set to announce results from drilling at its Kangaroo oil discovery in Brazil that will be hugely significant for the prospects to develop a commercial project at the site potentially worth as much as \$US1 billion (\$1.17 billion).

The junior explorer placed its shares on a halt on Monday pending the release of the results, expected on Wednesday.

Initial results from the drilling of the Kangaroo-1 well are pointing in the right direction, with Karoon reporting last week the well had reached the top of the reservoir, and turning up evidence of high gas readings and oil shows. It had yet to reach total depth at the well site, or to run full tests.

Assuming the results are as positive as hoped, **Karoon is targeting a potential decision in 2015 to start engineering and design (FEED) work on an oil development at Kangaroo, which could hold 135 million barrels** of oil according to estimates before any drilling took place.

It is **targeting a 350 metre-plus column of oil and gas** in the Kangaroo-2 well, in which Karoon, with a 65 per cent stake, is partnered by Pacific Rubiales.

Karoon has another well scheduled directly after Kangaroo 2, which will test the western side of the field, targeting a potential resource of 330 million barrels. If successful, that would significantly add to the size of the resource and enlarge the commercial project.

Citigroup earlier this month said that if the Brazilian drilling was successful it would value Karoon stock at \$7.31 a share assuming no risks to the resource, more than double current prices. Karoon shares last closed at \$2.94.

WorleyParsons has already carried out pre-FEED work for an oil development at Kangaroo, envisaging a floating production vessel, processing oil gathered through a subsea system. A leased vessel would reduce up-front capex costs, which would be funded partly by debt, according to Karoon chief operating officer Ed Munks.

The drilling program in Brazil's Santos Basin involves an option for another two wells, which may be drilled depending on the success of the first two. Mr Munks said last week he saw a "good chance" for at least one of the two optional wells to be drilled.

Janus Capital, which has counted among Karoon's larger shareholders for some time, has added stock to take it over the 5 per cent mark. It now holds 5.6 per cent according to a regulatory filing on Monday. IOOF Holdings has meanwhile increased its stake to 6.257 per cent from 5.091 per cent, according to a separate filing.

Last month, executive chairman Robert Hosking avoided a board overhaul at the company after a bid by dissident shareholder Pegasus CP One to appoint three new directors. The company has been moving to step up governance standards, with Mr Hosking's role set to be split. A new non-executive chairman is due to be appointed by the end of the year, with Mr Hosking then to take the role of managing director.