

Karoon Gas in exclusive talks on Brazilian oil acquisition



Karoon Gas's acquisition will immediately turn it into an oil producer in the waters off Brazil. Galdieri/Bloomberg **DADO GALDIERI**

by [Angela Macdonald-Smith](#)

Explorer Karoon Gas Australia is set to plunge into Brazilian oil production if exclusive talks with local oil giant Petrobras come to fruition.

The negotiations to buy 100 per cent of the producing Bauna oil project and half of the larger Tartaruga Verde project which is still under construction were revealed by Petrobras overnight Australian time and confirmed by the oil and gas junior on Friday.

News of the deal, which would provide Karoon's first ever cash flows from production, sent the company's stock price soaring as much as 20 per cent. The shares were up 10.75 per cent at \$1.545 in early afternoon trading.

The Bauna field, which started up in 2013, currently produces about 45,000 barrels of oil a day, while Tartaruga Verde is due to start production late in 2017 using equipment with capacity to produce 150,000 barrels a day.

While Karoon is expected to take a partner to help fund the acquisition, sources said it should still have a material share of oil output, making it unique on the ASX as a pure-play oil producer. No details of the field sizes or the price of the deal have been revealed.

The prospective deal, which should be completed this year, comes after extensive searching by Karoon for a suitable acquisition to deploy the proceeds of its successful sale of its stake in the undeveloped Poseidon gas field in the Browse Basin for up to \$US800 million. Struck just

before the start of the dramatic plunge in the crude oil price, that deal with Origin Energy delivered to Karoon an upfront cash payment of \$US600 million just as it was struggling with funding issues on its balance sheet.

Karoon is in talks with potential partners to sell down part of the stake it would take in the fields, with the rest of the funds to come from its existing cash reserves and debt. No fresh equity is expected to be raised.

The explorer is already working on a potential oil development in Brazil's southern Santos Basin using its own Echidna and Kangaroo discoveries, which it now owns 100 per cent of since striking a \$US20.5 million deal last week to buy out its financially troubled partner, Pacific Exploration and Production Corp.

Given Karoon's own discoveries lie just 40 kilometres from the Bauna field, the acquisition should allow the company to reduce costs of that development through operational efficiencies and logistical synergies.

The revelation of the latest deal talks raises the possibility that the partner that Karoon will take on for the acquisition will also invest across the rest of the company's Brazilian portfolio, including Echidna-Kangaroo.

Petrobras is to retain 50 per cent of the Tartaruga Verde venture, which is due to come into production in late 2017 using an offshore production vessel with a capacity of 150,000 barrels per day.

Karoon is understood to have been working on the Brazilian acquisition for 12 months, through a competitive process that originally saw several other firms, including private equity players and oil producers, vying to secure the fields. The structure of the process does not allow any latecomers to enter the fray, meaning the Australian company can't be gazumped at the last minute.

Separately Karoon also announced Monday it had secured an exploration permit in the vast Great Australian Bight far off the coast of South Australia, where drilling plans by oil major BP have stirred controversy and opposition among environmental groups. The junior committed to carrying out seismic surveys in the initial three-year term for the 17,793 square kilometre permit, with no commitment to drill a well.