

## **Karoon Gas in talks with Petrobras for Brazilian oil hub**



Karoon is planning a low-cost development of its Brazilian oil discoveries.

Explorer Karoon Gas Australia is in talks with Petrobras on a potential development hub for its oil discoveries off the coast of Brazil that could incorporate nearby fields held by the Brazilian oil major as it seeks to minimise the cost of bringing them into production.

The Brazilian venture would be the first producing project for Karoon, which is keen to take advantage of the current soft oil services market and proceed with a development to bring in cash flows.

Early work on engineering and design for the development of Karoon's Kangaroo and Echidna oil fields in Brazil's prolific Santos Basin has indicated that a larger hub concept could be viable involving third-party fields, said managing director Robert Hosking.

"There's quite good potential for quite a large oil-in-place development after we finish our appraisal drilling," Mr Hosking told The Australian Financial Review.

The Piracua field to the north-east of Karoon's acreage, held by Repsol and Petrobras, offers potential for the combined development, as does a small discovery at the Sabia-1 well to the west that lies in vacant acreage.

To the south, Petrobras's Bauna and Piracaba fields, formerly known as Tiro and Sidon, are already in production and Karoon could also look at tying in its fields to that production system.

## **FLOATING PRODUCTION**

Otherwise, Karoon and partner Pacific Rubiales are considering using a floating production ship to produce oil from the Kangaroo and Echidna fields, with the potential for early revenues from an extended well test, which would reduce financial risks from the project. In that scenario, production could come on stream in 18-24 months.

Appraisal drilling is due to get under way at the fields, which lie in water about 400 metres deep, in early 2016.

Chief operating officer Ed Munks said it was "reasonable" to expect quite a cost effective development for the fields using a floating vessel that could be re-deployed to other fields later and would require little modification.

"Karoon is trying to look at innovative development solutions: one of the options may be a tie-back or a hub development, Mr Munks said. "Because it's a distressed market now worldwide, we are looking at redeployed assets, for example, a redeployed FPSO [floating production storage and offloading vessel]. The labour market is getting cheaper, the labour is getting cheaper; we see there's a lot of cost savings for us."

Mr Munks said Karoon was keen to find a development for its Brazilian oil finds that would not dilute shareholders' equity and would keep any bank loans to a minimum.

"We don't want to be going for too much outside capital if need be, or none at all," he said.

Citigroup has calculated that a combined development of Kangaroo and Echidna would be economic at \$US43 a barrel, comfortably lower than current prices.

Karoon, with a market value of about \$635 million, and Pacific Rubiales are meanwhile considering running a 3-D seismic survey over the larger, deeper Platypus prospect. Mr Hosking said there was no sign that the recent \$US6 billion deal for Pacific Rubiales to be acquired by Mexico's Grupo Alfa and investor Harbour Energy would affect exploration plans.

## **PERUVIAN EXPLORATION**

In Peru, Karoon is still on the hunt for a partner to help fund two exploration wells planned for next year. Discussions have been ongoing with parties ranging from oil majors to private equity firms, attracted by targets that range from about 300 million barrels up to 2 billion barrels,

While the exploration campaign in the shallow waters of Peru's Tumbes Basin is high risk, the estimated cost of the work has halved to about \$US100 million because of the softening in rig hire prices.

Closer to home, Karoon is set to start drilling the Levitt-1 prospect in Western Australia within weeks with Apache, which is in the process of selling its Australian business to Brookfield and Macquarie Capital. The well, to be almost entirely funded by Apache, is targeting a potential 110 million barrel discovery, while the several other prospects in the WA-482-P permit bring the total potential resource to more than 1 billion barrels.

"Whilst high risk, this is a freebie and success would open a significant new oil play," RBC Capital Markets said in a recent report.