

Karoon Gas shares surge on oil discovery

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Karoon Gas shares have surged back after a trading halt, rising as much as 10 per cent on the back of a bigger than anticipated oil column found at its latest well drilled offshore Brazil.

The result from the Kangaroo-2 appraisal well, which found oil over depth of 250 metres, augurs well for the development of a commercial project at the field in the Santos Basin.

Karoon reported that the "net reservoir pay", the area of the total column that could yield commercial production, was 135 metres.

The result is a win for executive chairman Robert Hosking, who last month fended off a move by disgruntled shareholder Pegasus CP One to overhaul the board by appointing three new directors. Pegasus co-founder Erwin Weininger had accused Karoon of having a "casino mentality" under the leadership of Mr Hosking.

Karoon shares, which had been halted on Monday ahead of the drilling result, rose as much as 29¢ to \$3.23, a five-week high. It holds a 65 per cent stake in the S-M-1165 block that holds the Kangaroo field, with Pacific Rubiales owning the rest.

Oil was recovered from five separate reservoirs in the testing at Kangaroo-2, which was thought to have the potential to hold 135 million barrels of oil according to estimates before any drilling took place. The better than expected result from the appraisal well appears to leave open the possibility the reservoir could be bigger than that preliminary estimate.

"Work is continuing to assess the impact of the well results on the contingent resource size given the absence of an anticipated gas cap and the impact of shallower oil water contacts in some of the sands," Karoon said in a statement on Wednesday. It expects to complete the well results over the coming days, then carry out a production test, subject to those results.

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.

This story was found at: <http://www.smh.com.au/business/mining-and-resources/karoon-gas-shares-surge-on-oil-discovery-20141126-11u6pp.html>