

Karooon turns focus to Echidna's strong flows

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A successful Brazilian appraisal well has changed the potential development sequence of Karooon Gas Australia's Kangaroo development in the offshore Santos Basin and provided options for lower development costs.

The Echidna-1 appraisal well, the results of which were released to the market last week, had delivered strong flow rates and showed better permeability and porosity than the Karooon had been expecting.

"Test results confirm that the quality of the Palaeocene (geological age) reservoir is better than that observed anywhere else in Karooon's Brazilian exploration acreage," the company said in its release.

Managing director Robert Hosking said the results were encouraging.

"Ultimately, well productivity is a key driver of commerciality for any oil project, particularly in the current oil price environment," he said.

The results make up for a dry well at the Kangaroo West prospect and show that oil migration has continued to the north in Brazilian offshore plots that are 65 per cent owned by Karooon. As well as strong flows, the oil had no measurable carbon dioxide.

Company secretary Scott Hosking said the strong appraisal results meant the Echidna field would now be the focus for first development, with Kangaroo now taking a back seat and slated for a future tie-in to an Echidna-led development.

Karooon will not give a timetable for development as it continues pre-FEED (front-end engineering and design) studies. The share price reaction to the appraisal has been muted, but it was well received by analysts.

"These results were better than Kangaroo-2, de-risking the commerciality of Echidna, and reducing the number of wells (capex) required to develop the field," Citi analyst Dale Koenders said.

City has added \$1.44 a share to its Karooon target price in light of the increased probability of a Kangaroo development, bringing its target price to \$5.44.