

SE Features
HD **Origin Embarks on Poseidon Gas Adventure**
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Sydney-listed Origin **Energy**, operator of Australia's third coalbed methane LNG project, has snapped up Karoon Gas' 40% interest in two Poseidon licenses in the Browse Basin off Western Australia for up to \$800 **million** as part of an aggressive strategy to boost reserves.

Origin, which farmed into two unconventional gas blocks earlier this year, said on Monday it aims to "[increase] exposure to growing demand for natural gas both in Australia and overseas" (LNGI Feb.25'14). "We are mindful that the Australia Pacific LNG (APLNG) project begins production in mid-2015 and over the next two years there will be a significant increase in Origin's long-term cash flow and earnings," Managing Director Grant King said. "It is important that we act now to invest in Origin's continued development and growth through the latter part of this decade."

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The deal will see Origin acquire Karoon's 40% **stake** in exploration permits WA-315-P and WA-398-P for \$600 **million** in cash upfront, plus \$75 **million** once a final investment decision (FID) has been taken and another \$75 **million** on first production. The **company** will also pay \$5 **million** for every 100 **billion** cubic feet equivalent of proven and probable reserves exceeding 3.25 Tcf across the permits at the time of FID, up to \$50 **million**.

The permits hold the 2009 Poseidon discovery made by local minnow Karoon and 40% operator ConocoPhillips. This was initially thought to hold up to 7 Tcf, although subsequent drilling results suggest the discovery may be smaller (LNGI Feb.5'10). The gas could either be sent to feed the nearby Darwin LNG scheme operated by Conoco or be monetized as a floating LNG project, Origin said.

For Karoon, the **sale** will provide a much-needed capital injection while allowing it to focus on its flagship assets in Brazil. Investors were cheered by the news, with Karoon's shares gaining as much as 65% on Monday before settling almost 42% higher at A\$3.49 (US\$3.22) (IOD Jan.28'13).

Investors were less impressed with Origin: Its stock price slid 3.71% to A\$14.53, seemingly because the **company** indicated it would fund the **acquisition** through a A\$1 **billion equity** fundraising.

The **purchase** price of around \$0.46/Mcfe is nonetheless relatively cheap compared with recent transactions in the Browse Basin. IHS Herold calculates the implied resource value for PetroChina's **purchase** of BHP Billiton's **stake** in Browse LNG -- since redesigned as an FLNG project -- at \$0.89/Mcfe, while Mitsui and Mitsubishi paid \$0.76/Mcfe in 2012 for a 14.7% **stake** in Browse.

PetroChina bought into the Poseidon structure last year, landing a 20% **stake** in WA-315-P and WA-398-P from Conoco. But the actual price paid has not been determined as the **Chinese** state giant's \$402 **million acquisition** also included stakes in the Goldwyer shale prospects in the Canning Basin (IOD Feb.21'13).

Origin secured a cheaper deal than companies buying into Browse because Poseidon's resources have yet to be converted into reserves, RBC Capital Markets analyst Andrew Williams told LNGI sister publication International **Oil** Daily (IOD). Poseidon will be technically challenging as the resources are very deep and the structure heavily faulted. But it's an interesting deal for Origin "if this is about building an LNG portfolio," Williams said.

The deal also means that Origin is deepening its ties with Conoco, which partners it at the 9 **million** ton/yr APLNG scheme (LNGI May1'14).

The transaction, which is subject to usual partner and regulatory approvals, is expected to close in the third quarter.

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