



30 August 2010

(ASX Code: KAR)

Karoon signs farmin agreement with Petrobras for two blocks in the Santos Basin, Brazil - drilling has commenced in the first of a two prospect drilling campaign

Transaction highlights

Karoon Petroleo e Gas Ltda, a wholly owned subsidiary of Karoon Gas Australia Ltd, has executed a Farmin Agreement with Petróleo Brasileiro S.A (“**Petrobras**”) to acquire a 20% interest in blocks BM-S-41/ S-M 1352 (“**Maruja Prospect**”) and BM-S-41/ S-M 1354 (“**Quasi Prospect**”) located in the offshore Santos Basin, Brazil.

Subject to obtaining regulatory approvals in Brazil (including from the Brazilian Petroleum agency), Karoon will earn a 20% interest in both blocks by funding 35% of a well in the Maruja Prospect, as part of a two well drilling program. Karoon will then pay its equity share of continued work and reimburse Petrobras for sunk costs.

Drilling has commenced in the Quasi Prospect and drilling in the Maruja Prospect is expected to commence in September 2010. Results from both wells are expected by the end of 2010. Petrobras is the operator and the parties are currently finalising the terms of a joint operating agreement to govern operations on the blocks moving forward.

Promising geology

Three oil prospects have been identified with prospect size ranges (gross mean recoverable) estimated to be in excess of 100 million barrels. Preliminary economic evaluation by Karoon indicates that a development in this setting could be rapidly brought to production due to the close proximity of existing oil and gas infrastructure.

The recent Petrobras discoveries at Tiro and Sidon in Block BM-S-40 are located 16 km from the Maruja Prospect. These discoveries were in good quality tertiary aged sandstone reservoirs estimated to contain cumulatively 120Mmbo. The map on the next page illustrates the position of relevant blocks. Petrobras has lodged a development application with the relevant government authority and is currently producing oil at the Tiro discovery under an extended well test.

Petrobras a world class partner

Petrobras is the world's fourth largest energy company, the largest company in Latin America by market capitalization, and the largest company headquartered in the Southern Hemisphere. Karoon looks forward to further developing its strategic relationship with Petrobras.

The transaction further illustrates Karoon's strategy of expanding and diversifying its asset base by securing equity interests in good quality, prospective exploration areas.

For further information please see the Karoon website www.karoongas.com.au or contact:

Mr Scott Hosking Company Secretary – Karoon Gas Australia Ltd
Email: shosking@karoongas.com.au
Phone: (03) 5974 1044

Mr Ian Howarth – Collins Street Media
Email: ian@collinsstreetmedia.com.au
Phone: 0407 822 317

Brazil Santos Basin - Karoon farm-in and existing blocks

