



Karoon's Resource Upside to be Tested in Upcoming Global Drilling Program

To the Shareholder,

Karoon is about to enter a major phase of exploration and appraisal drilling commencing in a few weeks time, spanning three countries and two continents. The outcome of this drilling phase will be material for Karoon with drilling on large independent prospects in proven basins and drilling on high impact appraisal and exploration targets.

- In the Browse Basin Australia, a five to eight well drilling program is aimed at defining the size and quality of the discovered gas resources in the greater Poseidon structure to the point where we can confirm and move ahead with a commercial gas development.
- In the Santos Basin Brazil, commencing early in 2012, Karoon will drill a minimum of three wells which have the potential to add substantial oil resources to our portfolio, with target prospect sizes in excess of 200 million barrels each.
- In the Tumbes Basin Peru, drilling will start late in 2012 giving Karoon shareholders exposure to a third exploration program which has the potential to add substantial oil resources to our portfolio, with target prospect sizes in excess of 200 million barrels each.

In late 2011 Karoon's prospective oil and gas resources will be verified by independent experts, DeGolyer and McNaughton.

Browse Basin, Australia

Commencing in the fourth quarter, Karoon and its joint venture partner ConocoPhillips, will commence drilling five to eight wells in a continuous program in the Browse Basin. The first well, Boreas 1 in WA-315-P, is 4.2 km east of the Poseidon discovery and will be drilled in a crestal position on a previously untested fault block with significant gas potential. ConocoPhillips is funding 80% of Boreas 1 to fulfil its farmin commitments.

In 2012, Karoon proposes to farm-out an interest in the WA-314-P permit to offset risk and manage costs.

Karoon will be using the drilling rig "Transocean Legend", the same rig that drilled and tested Kronos-1. The drilling campaign will test new fault blocks within the greater Poseidon structure, ahead of decisions on a future development of the area. Karoon is optimistic that on drilling success, the results will provide sufficient certainty to provide confirmation of size, commence gas sales negotiations, and demonstrate the commerciality of a future gas project.

Current discovered Contingent resource range in Poseidon P90 3tcf P50 7tcf P10 15tcf.

Karoon hopes to narrow this range to enable sufficient certainty to proceed with development engineering studies by the end of this drilling campaign. Currently the additional unrisks Prospective Resource potential in the Browse permits' untested prospects and leads is 8tcf at the P50 level.

Santos Basin, Brazil

In Brazil, the new Santos Basin Wide Azimuth seismic data has produced high resolution 3D seismic images of the highly prospective pre and sub-salt features and have outlined a number of very exciting prospects. The Wide Azimuth seismic is the first application of this technology in Brazil.

Karoon has contracted the "Blackford Dolphin" drilling rig to undertake a three well drilling program in the Santos Basin, taking six to nine months, which will commence in the second quarter next year.

Current unrisks Prospective Resource Potential in Karoon's wholly owned Santos Basin permits lies in the range of 1.9 billion barrels at the P90 level to 5.6 billion barrels at the P10 level.

Karoon has also farmed into a Santos Basin Block with Petrobras, which led to the light oil discovery at Maruja-1. One exploration well and one appraisal well drilled on Maruja providing Karoon and Petrobras with sufficient information to commence planning the field's commercialisation.

Tumbes Basin, Peru

The interpretation of the Peruvian 3D seismic data is complete. The seismic data has delineated several new prospects and leads in a number of play types at several levels. The seismic data has been compiled with other data (including existing discoveries in the Tumbes and Talara basins), providing a compelling geological case for a high level of prospectivity in Block Z-38. Karoon has started planning and preparations for the drilling program for a start to drilling in late 2012 and expects to contract a rig early next year.

As a result of the new 3D seismic, the current unrisks Prospective Resource Potential in the Tumbes Basin block has doubled and lies in the range of 0.7 billion barrels at the P90 level to 4.2 billion barrels at the P10 level.

Way forward

The combined drilling programs over the next eighteen months across two continents will test a range of large independent prospects and field appraisal targets, with the potential to dramatically increase Karoon's discovered resource portfolio. By then Karoon will have the completed processing and interpretation of the 3D seismic data in all assets, potentially executed farm-out deals in Australia, Peru and Brazil and be close to completing the five to eight Browse Basin wells. The three wells in Brazil and two more in Peru will also be near complete, making Karoon one of Australia's most active oil and gas exploration companies.

I am confident the work completed over the past 18 months has put Karoon in a commanding position and provides the basis for future growth.



Robert Hosking
Executive Chairman
Karoon Gas Australia Ltd
20th October 2011