

ASX Announcement

Santos Basin, Brazil Drilling Update

- **Rig handover expected in the next 2-3 weeks**
- **Kangaroo-2 to commence drilling in November**
- **Focus, lower risk appraisal drilling followed by exploration drilling in a proven play type**



Queiroz Galvão "Olinda Star" Semi Submersible Drilling Rig

Karoon Gas Australia ('Karoon') is pleased to announce the Company expects to commence the 2-4 well appraisal and exploration drilling campaign during the second week in November 2014. The primary objective of the upcoming drilling program is to drill the lower risk appraisal well in the Kangaroo oil discovery.

During July 2014, Karoon contracted the Queiroz Galvao semi-submersible drilling rig, the Olinda Star to complete up to 4 wells in Karoon's 65% owned and operated Santos Basin blocks, S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166. The rig is currently completing operations with Petrobras and hand over of the rig is expected in the next 2-3 weeks.

Low risk appraisal drilling

The Kangaroo-2 appraisal well is designed to confirm the size of the oil column, the presence and size of a possible gas cap, reservoir continuity and properties, and flow rates. This information will be crucial for assessing the commerciality of the Kangaroo oil field and, which upon success, will be the basis for the Front End Engineering and Design ('FEED') phase bringing the project a step closer to commerciality.

The Kangaroo-2 appraisal well is located approximately 300 metres updip from Kangaroo-1 and will test the thick reservoir sequence observed in all surrounding wells. It is anticipated that a 350 metre plus gross hydrocarbon column will be intersected in this well.

Exploration drilling in a proven play type

The second well in the program is the Kangaroo West-1 exploration well, targeting a net un-risked prospective resource of 330mmbbls. Due to the large size and proximity to Kangaroo, a successful outcome at Kangaroo West-1 would materially add to any possible development of the Kangaroo oil field.

The play type for Kangaroo West-1 is proven at Kangaroo-1 with the intersection of a 76m gross oil column and oil recovered to surface from wireline DSTs. Kangaroo West-1 is located on the western flank of the same salt structure as Kangaroo-1 and has the same trap type and reservoir and seal intervals that have been mapped into the prospect from surrounding wells.

Large, material contingent and prospective oil volumes

The NET un-risked Kangaroo contingent resource and Kangaroo West prospective resource estimates to be tested in the upcoming drilling program are:

Oil (mmbbls)	Interest	NET Contingent Resource - Discovered			NET Un-risked Prospective Resource - Undiscovered		
		1C	2C	3C	Low	Best	High
Kangaroo*	65%	7	88	317	-	-	-
Kangaroo West*	65%	-	-	-	15	330	1,193

The estimated quantities of petroleum that may potentially be recovered by the application of a future development project relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration, appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. There is no certainty that any portion of the prospective resource estimated on behalf of Karoon will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the prospective resources evaluated.

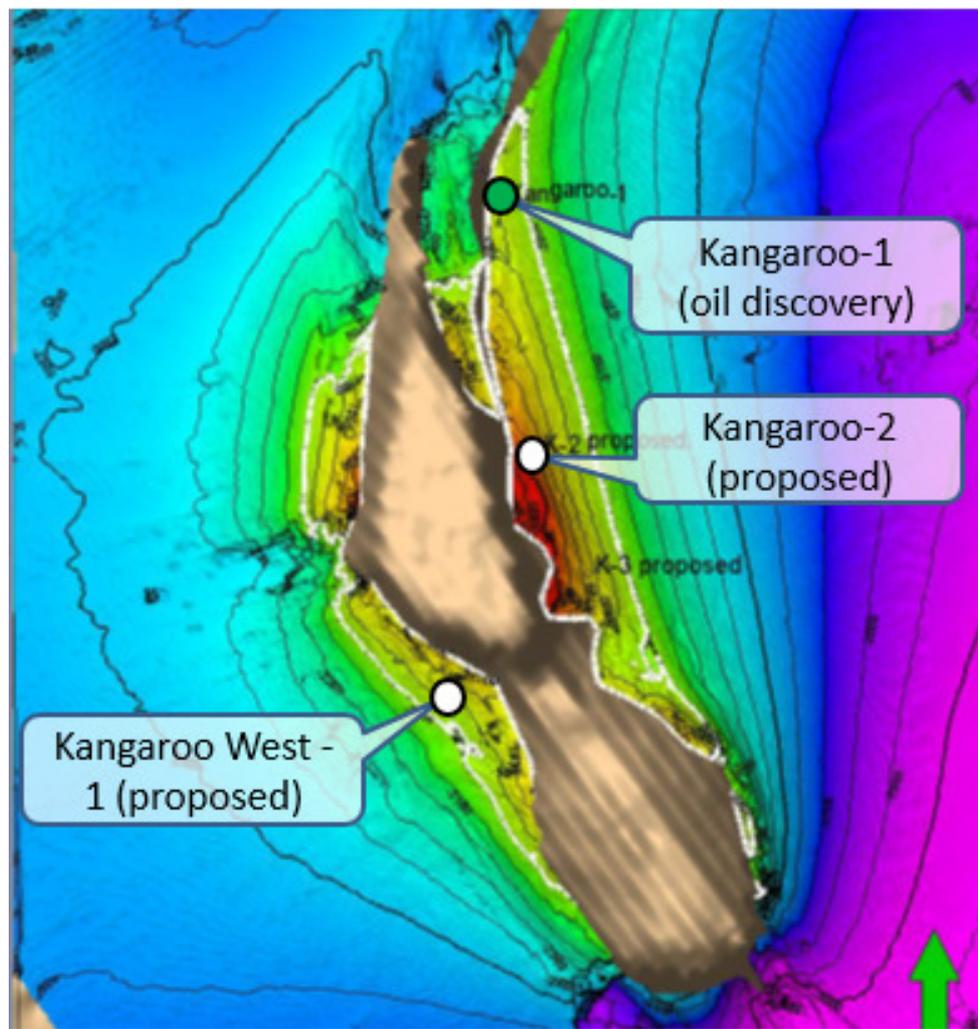
* The Kangaroo contingent resource and Kangaroo West un-risked prospective resource estimates have previously been disclosed in Karoon's June 2014 Corporate Review. Karoon is not aware of any new information or data that materially affects the Kangaroo contingent resource or Kangaroo West prospective resource estimates and all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.

The discovered resource is categorised as a contingent resource because further evaluation is required to confirm commerciality.

Rig contract provides maximum flexibility

The rig contract provides Karoon with 2 firm wells plus 2 option wells, providing maximum flexibility for further appraisal of the Kangaroo oil discovery, including testing and appraisal of the Kangaroo West prospect in the event of a successful drilling in the first 2 wells.

Kangaroo-2 Appraisal Well and Kangaroo West-1 Exploration Well Locations



About Karoon Gas Australia Ltd

Karoon Gas Australia Ltd is an international oil and gas exploration company with projects in Australia, Brazil and Peru and a member of the S&P/ASX 200 Index.

Karoon looks for high equity interests in early stage exploration opportunities containing large potential targets in basins with proven Petroleum Systems. Karoon strives to create shareholder value through the geotechnical work-up of the acreage, leveraging its high equity interests to explore and appraise these opportunities to achieve commercialisation.

While the company's core strategy is identifying off-shore early stage exploration opportunities, Karoon's longer-term strategy is to retain residual equity interests in the assets as they go into production.

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This announcement may contain certain “forward-looking statements” with respect to the financial condition, results of operations and business of Karoon and certain plans and objectives of the management of Karoon. Forward looking statements can generally be identified by words such as ‘may’, ‘could’, ‘believes’, ‘plan’, ‘will’, ‘likely’, ‘estimates’, ‘targets’, ‘expects’, or ‘intends’ and other similar words that involve risks and uncertainties, which may include, but are not limited to, the outcome and effects of the subject matter of this announcement. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements.

You are cautioned not to place undue reliance on forward looking statements as actual outcomes may differ materially from forward looking statements. Any forward-looking statements, opinions and estimates provided in this announcement necessarily involve uncertainties, assumptions, contingencies and other factors, and unknown risks may arise, many of which are outside the control of Karoon. Such statements may cause the actual results or performance of Karoon to be materially different from any future results or performance expressed or implied by such forward looking statements. Forward-looking statements including, without limitation, guidance on future plans, are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Such forward looking statements speak only as of the date of this announcement.

Karoon disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.