

Santos Basin Blocks S-M-1352 and S-M-1354

During August 2010, Karoon entered into agreements with Petrobras to farm-in to two contiguous Blocks S-M-1352 and S-M-1354 to earn a 20% interest. Karoon is currently awaiting regulatory approval from the ANP at the date of this Annual Report. During the financial year, Petrobras drilled two exploration wells, one well on each block to satisfy work programs.

The first well, Quasi-1, was drilled on Block S-M-1354, did not make a discovery and was plugged and abandoned in September 2010. This block expired during November 2010 and was formally relinquished by Petrobras during January 2011.

The second well in the campaign, Maruja-1, drilled in Block S-M-1352, discovered high quality light oil of 38 gravity API within a Oligocene aged sandstone reservoir. A full wire-line and pressure sampling program concluded that the reservoir was of high quality with excellent porosity and permeability. This reservoir interval was drill stem tested ('DST'), which although constrained by surface tubing, flowed oil at a maximum stabilised rate of 4,675 barrels of oil per day and 0.8 million cubic feet of gas per day through a ½ inch choke with a flowing well head pressure of 1050 psia. The well was then suspended during January 2011 and may be used as part of a longer production test in preparation for any eventual development that may occur.

The joint venture deemed that commercial flow rates could be achieved from Maruja-1 and requested and subsequently received approval for an evaluation licence from the ANP for an area defining the Maruja field. This evaluation permit included the drilling of an appraisal well and the reduction of Block S-M-1352 to the area around Maruja field.

During February 2011, Petrobras commenced the drilling of an appraisal well, Maruja-2, with a location designed to intersect reservoir at over 80 metres down dip and 4.5 kilometres from the initial discovery well. This well found good quality reservoirs contained below the oil/water contact at this location but no hydrocarbons were recovered. A side track well, was also drilled from the initial Maruja-2 well bore, to test further up-dip on the structure. This well encountered a very similar sandstone reservoir of excellent quality, but was also found to be below the oil water contact at this location. The well was plugged and abandoned during April 2011. The confirmation of good quality reservoir in a location on the edge of the interpreted Maruja field demonstrated the continuity of the sands, assisting in the understanding of the field.

An evaluation using all of the newly acquired well data is underway and reprocessing of the existing 3D seismic has commenced to better define and evaluate this field.

Equity Interests

Subject to ANP approval, Karoon will receive a 20% equity interest in Block S-M-1352 with Petrobras holding the remaining 80% equity interest.