



11 October 2007

Mr Darren Collins
Senior Adviser, Issuers
ASX Limited
Level 45
South Tower Rialto
525 Collins Street
Melbourne Victoria 3000

Dear Darren

KAROON GAS AUSTRALIA LIMITED – PRICE QUERY

In response to the queries raised in your letter of 10 October 2007, Karoon Gas Australia Limited (**Karoon**) provides the following information.

1. QUERY 1

Is the Company aware of any information concerning it that has not been announced which, if known, could be an explanation for recent trading in the securities of the Company?

No.

Karoon notes that it is currently negotiating the terms of an agreement with Woodside Energy Ltd for the acquisition of its 66.67% interest in petroleum exploration permit AC/P8 situated in the Northern Bonaparte basin (within Australian waters) for the purchase price of \$1 million. This transaction is subject to the negotiation and execution of a sale and purchase agreement, the non-exercise of certain pre-emptive rights held over the interest and the extension of the permit pursuant to the relevant petroleum legislation on agreed terms.

Karoon is aiming for the execution of a sale and purchase agreement by the end of October. Further details in relation to this transaction will be announced upon execution of the sale documentation.

Karoon believes that this transaction is not of a sufficiently material nature to have a material effect on the price or value of its shares or to explain the recent trading the subject of the query.

2. QUERY 2

If the answer to question 1 is yes, can an announcement be made immediately? If not, why not and when is it expected that an announcement will be made?

No applicable.

3. QUERY 3

Is there any other explanation that the Company may have for the price change in the securities of the Company?

Karoon is aware that research coverage of the company by an additional Australian broker commenced recently. Karoon believes that this may constitute some explanation for the recent price change in the shares of the company.

A recent announcement by Woodside Petroleum concerning its Browse basin acreage may have increased awareness of the Browse Basin Area.

4. QUERY 4.

Please confirm that the Company is in compliance with the listing rules and, in particular, listing rule 3.1.

Karoon confirms that it is in compliance with the listing rules and, in particular, listing rule 3.1.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'S Hosking', written in a cursive style.

Scott Hosking
Company Secretary
Karoon Gas Australia Ltd