

1 September 2010

Cougar Energy requests recommencement of trading on ASX

- Cougar Energy and Yorkville Associates agree terms for funding under previously announced equity financing facility
- Prospectus lodged with ASIC and ASX
- Other fundraising avenues under consideration
- Cougar Energy remains committed to commercialising UCG technology and environmental safety at all sites including Kingaroy
- Cougar Energy working with Queensland Government and DERM to obtain permission to re-commence trial at Kingaroy as soon as possible
- Comprehensive operational review/update being mailed to all shareholders

Cougar Energy Limited (ASX: CXY) advises that it has requested the ASX to permit that its ordinary shares re-commence trading on the Australian Securities Exchange tomorrow 2 September 2010.

The Company continues to have access to finance under the equity financing facility entered into with YA Global Master SPV Ltd (managed by Yorkville Associates, New York) on 26 February 2010 and subsequently varied by agreement on 31 August 2010. The total commitment amount is AUD 10 million and the facility expires on 25 February 2015. The Yorkville facility makes provision for the Company, at its election, to request funds by issuing “advance notices”.

Under the current operative provisions of the facility, advance notices are subject to a pricing period of 10 ASX trading days and may not exceed \$100,000 per advance other than with Yorkville’s consent. Once the pricing period has concluded, funds are made available to the Company in exchange for the Company issuing new shares (at the applicable price) to Yorkville. No more than one advance notice may be outstanding at any time. The facility makes provision for accessing larger amounts under an advance notice of up to \$700,000 based on the average daily trading value of shares exceeding agreed monetary thresholds.

In addition to the funding provided under the advance notices, there is also provision under the facility for Yorkville to make “special advances” to the Company provided that agreement is able to be reached on the amount of the special advance and the price at which shares are to be made available to Yorkville. Innisfree Pty Ltd, a company associated with the Company’s Managing Director Dr Len Walker, will place 20 million shares into an escrow account under a share lending arrangement to facilitate these special advances.

Funding from special advances can be in addition to funding sourced through advance notices. Given that the share lending arrangement involves a related party, appropriate shareholder approvals will be sought by the Company as required in accordance with Listing Rule 10.11.

This facility will be utilised to fund on-going working capital requirements. The permitted minimum draw downs will not cover all of the Company's short term funding requirements. Therefore the Company is currently considering a private placement of shares and a share placement offer to all shareholders. Details of further funding initiatives will be advised in due course.

Given that the Company's shares have been under voluntary suspension for more than 5 days in the last 12 months period, the Company has prepared and lodged a prospectus with the Australian Securities and Investments Commission (ASIC) in accordance with s.713 of the Corporations Act 2001. The primary purpose of the offer under the prospectus is to remove any trading restrictions on the sale of shares that may be issued by the Company prior to the closing date of the prospectus. Such shares may include shares issued under the Yorkville facility as well as shares issued in accordance with any other capital raising opportunities that may present themselves to the Company prior to the closing date.

The prospectus can be found in a separate announcement to the ASX today 1 September 2010.

Cougar Energy remains totally committed to remaining at the forefront of commercialising Underground Coal Gasification (UCG) in Australia and overseas. The Company is also committed to the continued health, safety and well-being of the communities and environments in which it works as its first priority.

Since the Queensland Government's Department of Environment and Resource Management (DERM) halted the Company's project at Kingaroy, a number of positive developments have occurred whilst the Company continues to work with the DERM to obtain permission to re-commence trial operations at Kingaroy at the earliest possible date:

1. All of the results from the water sample tests carried out recently by the Queensland Government accord with the Company's test results to show that there are no concerns with water quality in the local bores at Kingaroy.
2. The water tested conforms to the Australian Drinking Water Guideline standards.
3. There is no evidence that Cougar Energy's activities at Kingaroy have presented any danger to human health, livestock or local farming activities.

In the meantime, Cougar Energy continues to progress its projects in the Mid West of Western Australia, the People's Republic of China and Victoria.



THE NEW POWER IN AUSTRALIA

The Company is presently arranging for the distribution of a letter by mail to shareholders from the Company's Chairman Malcolm McAully. The letter can be found in a separate announcement to the ASX today.

The Company confirms that it is in compliance with the Listing Rules, and in particular Listing Rule 3.1.

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About Cougar Energy Limited

Cougar Energy Limited (CXY) is an Australian company at the forefront of progressing the development and commercialisation of Underground Coal Gasification (UCG) projects, using proven technology.

The UCG process converts coal in-situ into a synthesis gas ("syngas") which can be used as a fuel for power generation or for conversion into a range of petrochemical products and gas-to-liquid solutions.

The UCG process generates:

- cleaner energy
- low cost energy
- efficient resource utilisation.

The Company's flagship operation is the proposed 400 MW Kingaroy Power Station project at Kingaroy in central Queensland.

CXY is also currently developing a second Queensland UCG project on its Wandoan lease in the Surat Basin for the production of electricity, methane gas and petrochemicals, and is working in Victoria with Ignite Energy Resources Pty Ltd on the phased development of a potential UCG project in the Gippsland Basin. Recently the Company signed a Binding Terms Sheet with Eneabba Gas Ltd to form a joint venture for a UCG fired power generation project in The Mid West region of Western Australia.

Cougar Energy is also developing additional projects internationally with Direct Invest (People's Republic of China and Mongolia) and Cougar Energy (UK) Limited (47.8% owned).

www.cougarenergy.com.au