

12 August 2010

Safe drinking water conditions further confirmed after Queensland Government completes sample testing around Kingaroy site

Incorrect public statements and assertions misleading shareholders and the market: Cougar Energy Directors

SAFE DRINKING WATER CONDITIONS AT KINGAROY

Cougar Energy Limited (ASX: CXY) advises that further tests published by the Queensland Government's Department of Environment and Resource Management (DERM) on 11 August 2010 continue to show that groundwater sample results from in and around the Kingaroy Underground Coal Gasification (UCG) plant site in Queensland present "... no concerns with water quality in the local bores" and are "... below Australian Drinking Water Guideline standards ..."

Significantly, and as a result of these findings, restrictions have been removed on the use of groundwater bores in a two kilometre radius around the Kingaroy plant.

The latest Queensland Government results are to be found in the attached DERM Media Release (11 August 2010).

This is the fifth set of results published by DERM from its sampling at Kingaroy carried out during a period of approximately two weeks since 15 July 2010.

The DERM results confirm and vindicate the results from Cougar Energy's own water sample testing and the integrity of the Company's environmental protection plan. The benchmark Australian Drinking Water Guidelines (2004) are far stricter than "stock watering guidelines" which have recently been referred to in public announcements.

Cougar Energy has always conducted water sample testing at greater frequencies than required under its Environmental Authority for Kingaroy. In the last few weeks the Company has conducted up to 4 sample tests per day. The resultant satisfactory test results are what Cougar Energy expected even under this most rigorous testing regime.

CORRECTING INCORRECT AND MISLEADING PUBLIC STATEMENTS

The Directors advise shareholders and the market generally of their concerns regarding numerous uninformed and misleading statements made or published in the public arena in

relation to alleged threats of toxic contamination to water supplies resulting from the Company's operations at Kingaroy.

Cougar Energy categorically rejects any statement, implication, conjecture or speculation that it has compromised the drinking water quality in the Kingaroy region.

The Company and its Directors are alarmed at the misleading information being distributed by several parties in an apparent attempt to satisfy their own agendas, including the introduction and use of the expressions "poisonous" and "cancer-causing" in their efforts to seek attention and question the integrity of the Kingaroy project.

The **FACTS** are that the Company's test results, supported by the parallel tests undertaken by DERM, confirm the following:

Cougar Energy's Kingaroy project has presented

- **no danger to human health**
- **no danger to drinking water**
- **no danger to livestock, and**
- **no danger to other farming activities.**

Cougar Energy's Kingaroy project has not spread

- **any poisons, nor**
- **any cancer-causing agents**

into community groundwater supplies.

None of the water bores outside the Company's pilot plant and used by local landowners for extracting saline water (unfit for human consumption) have ever measured any detectable levels of hydrocarbons.

Further, it is important to note that two readings analysed by the independent testing laboratory proved to be false and provided incorrect results. These were readings of 84ppb (parts per billion) of benzene attributed to one of the Company's monitoring bores in the pilot plant area (200 metres from the gasification process) and 3ppb of toluene (trigger standard 800 ppb) attributed to a distant saline water production bore. The independent testing laboratory engaged by Cougar Energy has confirmed these mistakes in writing to the Company and copies of these reports have been passed on to DERM, for which DERM has acknowledged and accepted.

Despite DERM's acceptance that these results were false and incorrect, there continue to be reports (see South Burnett Times "Residents confront environment minister" 10 August



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2010) of these tests being relied on as evidence that Cougar Energy's Kingaroy project should be shut down permanently.

The Company expects that any representations on this issue deal only with the facts and that the proper processes of evaluation will be allowed to continue. The Company is taking legal advice on remedies available to it for any such misrepresentations of fact.

There have been public reports of "exceedances" of chemicals attributed to the Kingaroy site.

The only sample results which were above trigger reporting guidelines were two tests of 2 ppb of benzene received in June 2010 (see the Company's letter to the ASX of 29 July 2010). They emerged for a short period of time before falling below trigger detection levels. The Australian Drink Water Guideline standard is 1 ppb, the United States standard is 5 ppb and the World Health Organisation standard is 10 ppb.

These results were attributed to one *monitoring* well 200 metres from the gasification wells. A neighbouring *monitoring* well 10 metres from this monitoring well showed no detection above reporting levels. The monitoring well in question was installed solely for monitoring, is not designed to draw water for any purpose and contains water unfit for human consumption.

In fact DERM states that persons will have significantly more exposure to the hydrocarbon chemicals under investigation from the air they breathe, and most particularly at suburban petrol stations (DERM Media Release 17 July 2010).

Cougar Energy reaffirms its commitment to best practices in environmental management.

The Company is preparing its environmental evaluation report to be submitted to DERM on 16 August 2010 for evaluation by the UCG Scientific Expert Panel prior to a decision by DERM as to the future of the Company's Kingaroy Pilot Burn.

For further background information refer to Cougar Energy's ASX/Media Releases of 16, 19, 20 and 23 July 2010 and Response to an ASX Query Letter of 29 July 2010 which all appear under the Company's symbol CXY on the ASX website (www.asx.com.au) and on the Company's website www.cougarenergy.com.au.

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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 the world's best proven technology.

The UCG process converts coal in-situ into a 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 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

Department of Environment and Resource Management (DERM)

Media release

Landholder Bore Restrictions removed near Kingaroy UCG plant

Restrictions have been removed on the use of groundwater bores in a 2 kilometre radius around the Cougar Energy Underground Coal Gasification plant.

The Department of Environment and Resource Management Director General John Bradley today confirmed that the latest testing results again show that there are no concerns with water quality in the local bores.

“While the latest tests show low levels of benzene and toluene at the Cougar Energy plant itself, these are below Australian Drinking Water Guideline standards and only trace levels of toluene can be detected at some neighboring bores.

“After reviewing the fifth round of testing results, DERM is advising Kingaroy landholders there is no need to continue restrictions on access to groundwater sources in the 2 kilometre radius.

“DERM’s scientific staff consider the groundwater quality at neighbouring bores is comparable to the water quality shown in tests undertaken before the UCG plant commenced.

Biosecurity Queensland has now confirmed that no special precautions are required before cattle in the two kilometre zone are taken to slaughter. Landholders had been advised previously to restrict access to the groundwater in that area for 48 hours prior to slaughter.

Since July 15, the Department of Environment and Resource Management (DERM) has completed five rounds of sampling from bores and spring fed sources within two kilometres of the plant which have consistently shown benzene and toluene at levels less than the Australian Drinking Water Guidelines (ADWG).

DERM had taken samples from two monitoring bores within the trial site, eight bores within two kilometres of the plant, as well as additional sampling outside of the two kilometre area conducted at the request of landholders.

DERM Director-General John Bradley said these tests provided the confirmation government regulators required to remove the restrictions.

“We have taken a cautious approach before removing the restrictions so that we could provide clear confidence regarding the water quality.

“We understand that this past month has been an uncertain time for landholders affected by the restrictions but it was important to see repeated sample results in the area,” Mr Bradley said. Mr Bradley said that the testing results would now be considered as part of the Government’s current investigation to potential breaches of an environmental authority by Cougar Energy.

Mr Bradley said that DERM would be providing direct information to local landholders about their water quality, as the sampling program identified variable groundwater quality, unrelated to Cougar Energy’s activities.

DERM tested for a wide range of contaminants and found metals and naturally occurring compounds which appear consistent with groundwater sampling taken prior to the start of Cougar Energy's activities.

Biosecurity Queensland advised that the bore testing results poses negligible risk to stock and animal health.

Landholders have been contacted in relation to the results and advised that they should continue to use water which is fit for its intended purpose, and discuss any concerns with Queensland Health and Biosecurity Queensland.

If water is found containing naturally occurring chemicals above Australian Drinking Water Guidelines, Queensland Health would continue to advise that water should not be used for domestic purposes that involves ingestion such as kitchen use and tooth brushing.

Mr Bradley said DERM's order to Cougar Energy not to burn underground coal until further notice would remain in effect.

The investigation into Cougar Energy's activities at the site was continuing and regular testing will continue to be undertaken.

ENDS

Date: 11 August 2010

For further media enquiries contact Department of Environment and Resource Management Media Services Ph: (07) 3224 7792 or email media@derm.qld.gov.au