

1 February 2011

**QUEENSLAND GOVERNMENT PROPOSED ACTION
ON KINGAROY UCG PROJECT**

COUGAR ENERGY CONTINUES STRATEGIC REVIEW

Kingaroy

Following **Cougar Energy Limited's (ASX: CXY)** announcement to the ASX on 28 January 2011, Directors advise that the Queensland Government's Department of Environment and Resource Management (DERM) has provided Cougar Energy with a Notice of Proposed Action and a report from an independent scientific expert panel in relation to the Company's Underground Coal Gasification project at Kingaroy.

Cougar Energy is considering if there are grounds upon which to challenge DERM's decision and the proposed action. The Company is currently receiving legal advice in respect of the next steps which may be taken and will advise the market once it has reached a decision on the most appropriate course of action.

Cougar Energy is also concerned with a number of factual inaccuracies contained in the independent scientific expert panel's report and wishes to explore the extent to which DERM may have relied on this report. Cougar Energy will also be making a public response on this report to address these inaccuracies.

The Notice of Proposed Action issued by DERM *proposes* to amend the Environmental Authority granted to Cougar Energy for the Company's operations at Kingaroy as follows:

- The underground coal gasification activities on the site are to be limited to decommissioning, rehabilitation, care and maintenance, and
- A groundwater monitoring program as detailed in the Notice is to be developed for the site.

Cougar Energy has until 28 February 2011 to make representations to DERM to show why such proposed amendments should not be made to the Environmental Authority previously granted by DERM to the Company. If the Company is not able to convince DERM through consultation that it should be permitted to recommence operations at Kingaroy, consideration will need to be given to whether there would be any merit in challenging DERM's decision by making application to the Queensland Planning and Environment Court.



PricewaterhouseCoopers Securities report

The Company also refers to its previous announcement to the ASX (12 November 2010) on the appointment of PricewaterhouseCoopers Securities Limited (PwCS) as strategic financial advisor to Cougar Energy.

PwCS has furnished its report under Stage 1 of the strategic review with recommendations on enhancements to the Company operations as well as a list of potential partners and investors who may assist the Company continue on its growth path, particularly in international markets.

Cougar Energy is pursuing a number of project opportunities in international markets, including China and notes that the technology used by the Company in its underground coal gasification activities is the same as being used by a number of reputable energy companies, including Eskom in South Africa and Solid Energy in New Zealand.

The Cougar Energy Board is presently reviewing the recommendations from PwCS.

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