

7 January 2011

KINGAROY WATER TEST RESULTS UPDATE

Cougar Energy Limited (ASX: CXY) advises it has received further test results from several monitoring bores since the previous report of results announced to the ASX on 20 December 2010.

Two of these test results (sampled in monitoring bore T5066 close to the Kingaroy UCG pilot plant) indicated a level of 1 part per billion of benzene. No benzene or toluene was detected in any other monitoring bore including bores located adjacent to T5066 in the upper aquifer system.

This finding does not present any danger to local landholder water supplies and does not exceed the Australian Drinking Water Guideline for benzene.

The results from monitoring bore T5066 have been inconsistent, with a number of readings showing no detectable levels of benzene. Sampling and testing continues.

Cougar Energy continues to co-operate and work with the Queensland Government and DERM, and awaits their response to the Environmental Evaluation reports submitted by the Company.

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About Cougar Energy Limited

Cougar Energy Limited (ASX: 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.

Cougar Energy is working in Australia on potential UCG projects on its coal lease at Wandoan in the Surat Basin, in Western Australia and in Victoria.

Cougar Energy is also developing additional projects internationally in the People's Republic of China and through Cougar Energy (UK) Limited (47.8% owned).

www.cougarenergy.com.au