

2 June 2010

KINGAROY PILOT PLANT UPDATE

- Installation of two new injection and gas production wells continues
- Production and testing of gas forecast to recommence in late June
- Recommendations on power project options from the pre-feasibility work due by early July

Cougar Energy Limited (ASX: CXY) provides an update on the operations at its Underground Coal Gasification (UCG) pilot project at Kingaroy in Queensland, following on from the ASX announcement released on 27 April 2010.

The preparation work for the installation of the two new process wells (P5 and P6) is almost complete. The casing design for these wells has been modified to improve performance. The drilling rig will arrive on site early next week and drilling of the new wells will be completed in the third week of June (current forecast) with a re-commencement of the gasification process and production of gas to occur at the end of June 2010.

As part of the previously advised Pre-feasibility Study for the construction of the Kingaroy Power Station, further drilling delineating the JORC resource on site will be completed this week. Due to changes in rig mobilisation schedules, the planned drilling program at the Company's Wandoan site in Queensland using the current rig on site has been deferred until later this year.

Present indications are that wells P1 and P4 will not be utilised in the on-going production and testing of gas in this initial phase and will be plugged. However the operations of wells P2, P3, P5 and P6 will enable the proposed pilot burn test area of 20,000 tonnes of coal to be gasified and meet the requirements of the pilot program.

Work on the Pre-feasibility Study is nearing completion. Preliminary assessments are consistent with the project economics and returns from previous modelling work for the proposed power station. The Company anticipates being able to announce recommendations on power project options by early July 2010.

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About Cougar Energy Limited

Cougar Energy Limited 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 gas 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 400 MW Kingaroy Power Station project in central Queensland. Ignition and production of gas commenced in March 2010. After a delay caused by well blockages, re-ignition is scheduled for the end of June 2010.

It 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 an MOU with Eneabba Gas Ltd to form a joint venture for a UCG/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).

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