

FOURTH SUPPLEMENTARY PROSPECTUS

COUGAR ENERGY LIMITED

[ACN 060 111 784]

("the Company")

IMPORTANT NOTICE

This Fourth Supplementary Prospectus is dated 1 February 2011 and was lodged with ASIC on that date. This Fourth Supplementary Prospectus supplements:

- (a) the prospectus dated 1 September 2010 issued by the Company and lodged with ASIC on that date ("**Prospectus**");
- (b) the first supplementary prospectus dated 15 September 2010 issued by the Company and lodged with ASIC on that date ("**First Supplementary Prospectus**");
- (c) the second supplementary prospectus dated 15 October 2010 issued by the Company and lodged with ASIC on that date ("**Second Supplementary Prospectus**"); and
- (d) the third supplementary prospectus dated 12 January 2011 issued by the Company and lodged with ASIC on that date ("**Third Supplementary Prospectus**").

This Fourth Supplementary Prospectus must be read in conjunction with the Prospectus, the First Supplementary Prospectus, the Second Supplementary Prospectus and the Third Supplementary Prospectus.

ASIC and the ASX take no responsibility for the contents of the Prospectus, the First Supplementary Prospectus, the Second Supplementary Prospectus, the Third Supplementary Prospectus or this Fourth Supplementary Prospectus.

Terms used in this Fourth Supplementary Prospectus have the same meaning as in the Prospectus unless otherwise defined or the contrary intention appears.

REASON FOR FOURTH SUPPLEMENTARY PROSPECTUS

The Company is issuing this Fourth Supplementary Prospectus in light of the fact that a significant new matter has arisen since the Prospectus was lodged which would have been required to be included in the Prospectus if it had arisen before the Prospectus was lodged.

At the date of this Fourth Supplementary Prospectus, the Company has not received any applications for Shares pursuant to the Offer, accordingly, it is not necessary for the Company to offer applicants the option to withdraw their applications.

Any new applications should be made using the Replacement Application Form which is attached to or accompanies this Fourth Supplementary Prospectus. However, as noted in the Prospectus, the Directors reserve the right to issue Shares pursuant to the Offer at their absolute discretion. Accordingly, please do not submit a Replacement Application Form unless directed to do so by the Directors.

If an application using the Application Form which accompanied or formed part of the Prospectus, the First Supplementary Prospectus, the Second Supplementary Prospectus or the Third Supplementary Prospectus is received after the lodgement of this Fourth Supplementary Prospectus, the Application Form and application monies will be returned and the applicant may be invited to reapply using the

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Replacement Application Form which is attached to or accompanies this Fourth Supplementary Prospectus. Investors should ensure they use the Replacement Application Form to avoid delays which may result from an old Application Form being returned.

NEW DEVELOPMENTS

DERM issues Notice of Proposed Action in relation to the Company's Kingaroy Operations

This Fourth Supplementary Prospectus has been issued to update the Prospectus in light of DERM's decision to amend the conditions of the Company's Environmental Authority to restrict all future activities at the Company's Kingaroy site to decommissioning, rehabilitation and care and maintenance of the site.

The Company was the subject of three Environmental Evaluation notices, one received 17 July 2010 and a further two received on 16 September 2010, issued by DERM to the Company in response to the detection of contaminants at the Company's Kingaroy operation.

In response to the Environmental Evaluation notices, the Company submitted a number of Environmental Reports and additional information, including information concerning the Company's existing and ongoing operational requirements. All reports and works were furnished and completed by DERM's stipulated deadline of 10 December 2010.

On 27 January 2011, the Company was advised by DERM that it had accepted the report prepared by the Company relating to the casing rupture, but that it would not accept the reports relating to the Company's investigation of the hydrogeological characteristics of the Kingaroy site or the Company's proposed risk management plan.

On 28 January 2011, DERM issued to the Company a Notice of Proposed Action. The Notice states that it is DERM's intention to amend the Company's Environmental Authority to:

- (a) limit all UCG activities on site to decommissioning, rehabilitation, and care and maintenance of the site;
- (b) provide for an ongoing groundwater monitoring program across a range of quality characteristics, until results indicate that all contaminants (if any) are consistent with the "background level" for a period of six months;
- (c) provide for strict notification guidelines in the event that further contaminants are recorded in any of the monitoring bores; and
- (d) provide for a documented decommissioning and rehabilitation procedure to be prepared with regards to the underground cavity and (if any) affected groundwater.

DERM has provided the following reasons for issuing the Notice of Proposed Action, some or all of which the Company may dispute (refer below):

"(a) the uncertainty which exists in relation to:

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- (i) the cause of the well blockages, the failure of the casing for well P4 and the migration of contaminants as detected in the adjacent bores;*
 - (ii) the localised geological formations and aquifers and the migration of contaminants between them; and*
 - (iii) the outcomes of the environmental risk assessment submitted which underpins environmental risk management at the site.*
- (b) the short period of time between the ignition of the coal seam, the well blockages and the failure of P4's well casing;*
- (c) Cougar Energy's prior non-compliance with the Environmental Authority, in particular conditions A1-1, A3-1, A5-1, A8-2, C1-1 and/or C10-5;*
- (d) taking into account the points made in (a) to (c) above, the proximity of the Cougar Pilot Project to environmental receptors which could be seriously affected by contamination resulting from UCG operations; and*
- (e) taking into account the points made in (a) to (d) above, the time and resources both Cougar Energy and DERM would need to expend to be sufficiently satisfied that the level of risk in allowing any further coal seam burns on the Cougar Energy site is acceptable compared with:*
- (i) the time and resources that must be expended to ensure that the P1 burn chamber and surrounding environment have been sufficiently remediated such that it no longer poses a risk of causing environmental harm; and*
 - (ii) the relatively short period of time left to complete the UCG Demonstration Trial activities, which is noted to necessarily include a demonstration of the ability to remediate UCG burn chambers and, as the present circumstances now emphasise, UCG infrastructure failures."*

DERM's decision was made in conjunction with an interim report on the Company's Kingaroy operations dated 24 January 2011, prepared by the independent scientific expert panel ("ISP") assembled by the Queensland State government to consider the development of UCG in Queensland. The interim report has been released to the public and has been posted on DERM's website.

IMPLICATIONS OF NEW DEVELOPMENTS

Response to the Notice of Proposed Action

The Notice of Proposed Action provides that representations may be made by the Company as to why the Company's Environmental Authority should not be amended by no later than 28 February 2011.

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The Company is considering if there are grounds upon which to challenge DERM's decision and whether there is scope to contest some or all of the proposed amendments to the Environmental Authority. The Company is concerned that the interim report prepared by the ISP appears to contain factual errors and wishes to explore the extent to which DERM may have relied upon this report.

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 an application to the Planning and Environment Court. Any such decision would require careful analysis of the legal and commercial merits associated with undertaking what could be expensive and protracted legal action.

For the time being, the Kingaroy operation remains suspended under the Environmental Protection Order previously issued by DERM.

Rehabilitation costs

As noted above, the Company will be required to undertake works in accordance with the amended Environmental Authority. The Company has in place a \$599,000 bond set aside for the costs of rehabilitation of the Kingaroy site. The scope of the rehabilitation and decommissioning program has changed from that originally contemplated by the Company's Environmental Authority, and the Company is in the process of costing these works.

The Company will, if necessary, adjust its budgeted funding requirements to accommodate the anticipated costs associated with complying with the Environmental Authority.

YA Facility

As noted in Section 6.1(a) of the Prospectus, the Company has access to finance under the YA Facility originally entered into with YA Global Master SPV Ltd ("YA") on 26 February 2010 and subsequently varied by agreement on 31 August 2010 and 7 October 2010.

YA may take the view that DERM's Notice of Proposed Action will have a materially adverse effect on the Company and accordingly constitute an event of default in accordance with the terms of the YA Facility. If YA were to take this view then the Company would not be able to access funding under the YA Facility.

The Company is currently in discussions with YA to determine whether it will continue to have access to funding under the YA Facility.

Impairment

As a consequence of DERM issuing the Notice of Proposed Action material uncertainty exists in relation to the carrying value of the Kingaroy assets. In the event that the Company is not permitted to proceed with its Kingaroy operations, the carrying value of the Kingaroy assets will be impaired. The extent of the impairment will depend upon the values that are ascribed to the Kingaroy assets, and any impairment will be identified in the Company's 31 December 2010 accounts.

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PRIORITISATION OF PROJECTS

The Company has been pursuing projects for the commercial development of UCG outside of Queensland in light of the uncertainty concerning UCG in Queensland generally and DERM's investigation of the Company's Kingaroy operations. In support of this process, the Company appointed PricewaterhouseCoopers Securities Limited ("**PwCS**") to provide a strategic overview of the Company's activities and growth opportunities. PwCS has furnished its report under "Stage 1" of the strategic review with recommendations on enhancements to the Company's operations as well as a list of potential partners and investors who may assist the Company to continue on its growth path, particularly in international markets.

The Company intends to continue working with its existing partners in the development of UCG in Australia and abroad. The timetable for development of any of the Company's existing projects is dependent upon the Company and, where applicable, its development partners, being able to access finance as required. It is also dependent on receiving the required government approvals and authorities on a timely basis. The Company is mindful that there is some uncertainty regarding how the various Australian States will regulate the commercialisation of UCG and that this will impact on the Company's ability to pursue the development of UCG in the Australian market. The Company has also yet to determine the effect DERM's Notice of Proposed Action might have on its ongoing negotiations with relevant counterparties.

The Company currently has interests in the following projects:

People's Republic of China:

Inner Mongolia Qi De Investment Co Ltd

The Company is negotiating with Inner Mongolia Qi De Investment Co Ltd to develop a UCG project in the Inner Mongolia Autonomous Region. The Company will now look to accelerate joint venture negotiations and project delivery timeframes.

Shanghai Limitedless Investment Group

As announced to the ASX on 1 October 2010, the Company established a strategic alliance with the Shanghai Limitedless Investment Group ("**SLI**") who initially subscribed for \$1,000,000 of new Shares under a Terms Sheet signed by SLI's wholly-owned subsidiary, Limitless International Holdings Pty Limited ("**LIH**").

Under the Terms Sheet, a further subscription of capital is to be made if and when the Definitive Co-operation Agreement between the Company and LIH is completed.

As a result of the recent holiday period in Australia, and the current Chinese New Year celebrations, the Company and LIH have agreed to extend the timeframe for negotiating the Definitive Co-operation Agreement to give sufficient time to complete a technical review of the coal leases that are being targeted in the People's Republic of China.

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The Company will keep the market informed of any material developments.

Pakistan

The Company's subsidiary Cougar Energy (UK) Limited ("**Cougar UK**") is in advanced discussions with a potential local joint venture party in relation to the proposed development of its exploration licence located in the east of Sindh Province, Pakistan. Whilst negotiations are at an advanced stage there is no certainty that agreement will be reached in relation to the proposed joint venture. The current proposal, which is presently under the consideration of the counterparty's board of directors, is to divest approximately 50% of the Cougar UK's interest in the licence. Any funds received would be applied towards development of the joint venture project.

Latrobe Valley, Victoria

The Company will seek to bring forward negotiations for the joint venture agreement with Ignite Energy Resources Pty Ltd ("**IER**") (refer ASX announcement dated 10 March 2010) to facilitate a drilling programme to commence at three target areas in the tenement identified as EL4416 (controlled by IER).

Mid West, Western Australia

As announced to the ASX on 8 June 2010, the Company entered into a binding terms sheet with Eneabba Gas Limited ("**ENB**") for a joint venture to develop a UCG project on the Sargon tenement identified as E70/2758 (controlled by ENB). As announced to the ASX on 21 January 2011, ENB is asserting that the Company has repudiated the agreement. The Company rejects this assertion and has written to ENB seeking clarification of the basis upon which it is asserting the repudiation. The Company remains committed to this project and will keep the market informed of any material developments.

FINANCING REQUIREMENTS

By way of update, as at the date of this Fourth Supplementary Prospectus the Company's cash reserves (not including cash deposits pledged as security for bank guarantee and credit card facilities) are \$2,375,000.

The Company is of the view that it has sufficient funds available to meet current liabilities as and when they arise.

In addition to available cash, the Company will continue to access further funding under the YA Facility subject to such funding being available in accordance with the terms of the YA Facility. Furthermore, the Company intends pursuing other capital raising opportunities as they present themselves including the proposed placement of a second tranche of Shares to LIH on the terms announced to the ASX on 1 October 2010. As discussed above, the placement to LIH is dependent upon the parties negotiating and executing a Definitive Co-operation Agreement.

The Company will continue to assess its funding requirements on an ongoing basis.

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UPDATED INFORMATION

The Company has made the following announcements (continuous disclosure notices) to ASX since lodging the Third Supplementary Prospectus. The following list should be read in conjunction with the list appearing in Section 8 of the Prospectus, as supplemented by the First Supplementary Prospectus, the Second Supplementary Prospectus and the Third Supplementary Prospectus.

Any person may request, and the Company will provide free of charge, a copy of any of the below announcements during the application period of the Prospectus:

| <i>Doc date</i> | <i>Headline</i> |
|------------------------|--|
| 1/02/2011 | Queensland Government's Decision on Kingaroy |
| 31/01/2011 | China Projects Update |
| 31/01/2011 | Quarterly Report December 2010 |
| 31/01/2011 | LNC Receives Positive Report from Independent Expert Panel |
| 28/01/2011 | Trading Halt |
| 24/01/2011 | Agreement with Eneabba Gas |
| 17/01/2011 | Decision Date on Environmental Evaluation Reports Extended |
| 12/01/2011 | Third Supplementary Prospectus |

DIRECTORS' CONSENT

Each of the Directors of the Company has consented to the lodgement of this Fourth Supplementary Prospectus with ASIC.

Signed for and on behalf of the Company:

L. K. Walker

Date: 1 February 2011

Dr. Len Walker
Director