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Thursday,
29 July 2010.

Mr James Gerraty,
Manager Issuers, Melbourne,
Australian Securities Exchange Limited,
Level 45, South Tower,
525 Collins Street,
Melbourne, Victoria, 3000.

By email to: james.gerraty@asx.com.au

Dear James,

Response to Query

I refer to your letter dated 27 July 2010. The Company is now pleased to respond to your queries as follows:

1. **Q** **When did the Company first become aware that benzene and toluene had been detected in groundwater monitoring bores close to the plant (the "Test Results")?**

   A Prior to commencing gasification at the pilot plant the Company developed and implemented a groundwater monitoring program for the site in accordance with the requirements of its Environmental Authority. The program makes provision for the regular monitoring of a number of groundwater bores located close to the pilot plant.

   The two monitoring bores situated outside the gasification zone referred to below (T5037 and T5038) are located 10 metres apart from one another within the pilot plant area and do not access potable water.

   The Company first became aware on 7 May 2010 that analyses of groundwater samples taken on 28 April 2010 indicated that toluene had been detected in T5038 but not T5037. The detection level of 45 parts per billion (**ppb**) was considered to be possibly a false reading. A subsequent reading of 4 ppb was received on 19 May 2010.

   The Company first became aware on 4 June 2010 that analyses of groundwater samples taken on 27 May indicated that benzene at 2 ppb had been detected in T5037 but not T5038.

2. **Q** **When did the Company first become aware of the DERM Order?**

   A DERM provided no indication that it was contemplating issuing the DERM Order until very late in the evening of Thursday 15 July 2010. At 11.12 pm on 15 July 2010 DERM emailed one of the Company's employees attaching a media release which declared, inter alia, that DERM "...will order Cougar Energy to keep its pilot Underground Coal Gasification plant near Kingaroy closed until the Government is assured that groundwater resources are protected." The employee first read the email at approximately 8 am on Friday 16 July 2010 and it was at this point that the Company became aware of the proposed DERM Order. The Company proceeded to request a trading halt prior to the opening of trading on 16 July 2010.

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2. A At 2.08 pm on Saturday 17 July 2010, the Company was served with the DERM Order by email which advised, inter alia, that the Company is "...required to stop, and not commence or recommence, any burning of underground coal as part of the underground coal gasification activities at the Cougar Site until further notice from the administering authority."

3. Q **If the answer to either of questions 1 or 2 above was a date before the Trading Halt Request, please identify any earlier announcement from the Company which disclosed relevant information contained in the Trading Halt Request.**

A In relation to question 1: For the reasons indicated in our response to Question 4, the Company did not make any prior announcement in relation to the Test Results.

In relation to question 2: Not applicable.

4. Q **If there was no earlier announcement of the Test Results, please advise why the Company did not release the information to the market at an earlier time, or request a trading halt pending release of an announcement.**

A At the time it became aware of the Test Results the Company did not make an announcement as it did not have sufficient information to determine whether the recorded levels were related to the Company's underground gasification activities nor was it in a position to draw any valid conclusions on the potential implications of the Test Results.

Hydrocarbons can derive from a number of sources so following receipt of the Test Results the Company commenced an internal assessment and investigation into the potential cause and environmental impact associated with the detections. The assessment was carried out in accordance with the requirements of the Company's Environmental Authority.

The Company's investigation concluded that there had been very minor detections of benzene and toluene; that the Test Results had been transitory in nature; and that they had been confined to isolated monitoring bores that do not access potable water (i.e monitoring bores T5037 and T5038). There was also no consistency between the Test Results in the two neighbouring bores.

In light of its findings, the Company did not consider that the Test Results indicated that serious or material environmental harm had been or was being caused.

To put the Test Results into perspective, the Australian Drinking Water Guideline for toluene is 800 ppb and the highest concentration recorded by the Company was 45 ppb detected at monitoring bore T5038. The Australian Drinking Water Guideline for benzene is 1 ppb whereas the World Health Organization Drinking Water Guideline for benzene is 10 ppb and the US Drinking Water Guideline is 5 ppb. The only monitoring bore to return a Test Result for benzene in excess of 1 ppb was T5037 where a benzene concentration of 2 ppb was detected.

The bore sample results referred to in the Company's Media Release of 16 July 2010, which related to a benzene reading, was wrongly attributed to monitoring bore T5038 by the independent testing laboratory, and applied instead to an observation bore within the gasification zone.

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4. **A** The Company's internal testing, and the subsequent testing undertaken by DERM (as publicly reported at the date of this announcement), indicate that no potable water was compromised by reference to the Australian Drinking Water Guideline. Monitoring bore T5037, which is the only bore where a Test Result value was recorded above Australian Drinking Water Guidelines contains total dissolved solids ranging between 1,500 and 2,260 mg/L, and is therefore considered too saline for human consumption.

The Company's investigation into the reasons for the Test Results obtained is ongoing and the Company's findings will be reported in accordance with the requirements of the Environmental Evaluation Notice that has been issued by DERM.

For the reasons mentioned above, at the time the Company completed its internal review and submitted its findings to DERM on 30 June 2010 (at which time benzene levels were at/or below the Australian Drinking Water Guidelines), it did not consider that the Test Results were sufficiently material to warrant disclosure in accordance with Listing Rule 3.1. If validated results from the monitoring bores confirmed anything other than transitory, isolated, low levels of detection, then a further assessment would have been made as to whether an announcement may have been necessary.

In the period that elapsed between the date the Company submitted its Test Results to DERM on 30 June 2010, (following contact made on 21 June and 23 June 2010) and the date that it requested a trading halt (16 July 2010), DERM gave no indication that it considered the Test Results indicated the Company's activities presented a threat to the environment which may necessitate protective measures being taken. This affirmed the Company's understanding that the Test Results were not material in nature. If DERM considered that the Test Results indicated a threat to the environment the Company would have expected DERM to contact it immediately.

Ultimately, the Company met with DERM at 5 pm on Wednesday 14 July to discuss all of the monitoring bore results and the Company's findings. The possibility of DERM issuing a protective order was not canvassed at the meeting and the next relevant contact the Company had from DERM was late on Thursday 15 July when it forwarded the media release.

As noted above, as soon as the Company became aware of the action DERM was proposing to take, it requested a trading halt.

The Company is of the view that at all relevant times leading up to the trading halt it was not in possession of information that a reasonable person would expect to have a material effect on the price or value of its securities.

5. **Q** **If there was no earlier announcement of the DERM Order, please advise why the Company did not release the information to the market at an earlier time, or request a trading halt pending release of an announcement.**

A The Company applied for a trading halt prior to the opening of trading on the day that it did in fact become aware of the DERM Order.

6. **Q** **Please confirm that the Company is in compliance with listing rule 3.1.**

A The Company confirms that it is in compliance with listing rule 3.1.

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COUGAR ENERGY

I trust the foregoing answers provide a satisfactory response to your queries.

Yours sincerely,

L. K. Walker

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Dr Len Walker,
Director.

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27 July 2010

Rodney Watson
Company Secretary
Cougar Energy Limited
MELBOURNE

By email only

Dear Rodney

Cougar Energy Limited (the "Company")

ASX Limited ("ASX") refers to the following chronology (the "Chronology").

1. The Company's section 708(5)(e) notice lodged with ASX on 14 July 2010 and released at 3:25pm that day confirming there is no excluded information as defined in sections 708A(7) and 708A(8) of the Corporations Act.

2. The media release dated 15 July 2010 from the Queensland Department of Environment and Resource Management ("DERM") advising that it would order closure of the Company's pilot Underground Coal Gasification plant near Kingaroy until the Queensland Government is assured that ground water resources are protected following receipt on 13 July of water quality tests from the Company taken on 29 June 2010 which detected benzene and toluene in groundwater monitoring bores close to the plant (the "DERM Order").

3. The Company's trading halt request made prior to the commencement of trading on 16 July 2010 advising that it had received the DERM Order (the "Trading Halt Request").

As you are aware, listing rule 3.1 requires an entity, once it becomes *aware* of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, to immediately tell ASX that information. The exceptions to this requirement are set out in listing rule 3.1A.

I would also like to draw your attention to the definition of "aware" in Chapter 19 of the listing rules. This definition states that:

> *"an entity becomes aware of information if a director or executive director (in the case of a trust, director or executive officer of the responsible entity or management company) has, or ought reasonably to have, come into possession of the information in the course of the performance* of their duties as a director or executive officer of that entity."

Furthermore, paragraph 18 of Guidance Note 8 states:

> *"Once a director or executive officer becomes aware of information, he or she must immediately consider whether that information should be given to ASX. An entity*

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cannot delay giving information to ASX pending formal sign-off or adoption by the board, for example."

Listing rule 3.1A sets out an exception from the requirement to make immediate disclosure, provided that each of the following are satisfied.

"3.1A.1 A reasonable person would not expect the information to be disclosed.

3.1A.2 The information is confidential and ASX has not formed the view that the information has ceased to be confidential.

3.1A.3 One or more of the following applies.

- *It would be a breach of a law to disclose the information.*
- *The information concerns an incomplete proposal or negotiation.*
- *The information comprises matters of supposition or is insufficiently definite to warrant disclosure.*
- *The information is generated for the internal management purposes of the entity.*
- *The information is a trade secret."*

Having regard to the above definition, listing rule 3.1 and Guidance Note 8 - Continuous Disclosure, we ask that you answer the following questions in a format suitable for release to the market in accordance with listing rule 18.7A.

1. When did the Company first become aware that benzene and toluene had been detected in groundwater monitoring bores close to the plant (the "Test Results")?
2. When did the Company first become aware of the DERM Order?
3. If the answer to either of questions 1 or 2 above was a date before the Trading Halt Request, please identify any earlier announcement from the Company which disclosed relevant information contained in the Trading Halt Request.
4. If there was no earlier announcement of the Test Results, please advise why the Company did not release the information to the market at an earlier time, or request a trading halt pending release of an announcement.
5. If there was no earlier announcement of the DERM Order, please advise why the Company did not release the information to the market at an earlier time, or request a trading halt pending release of an announcement.
6. Please confirm that the Company is in compliance with listing rule 3.1.

Your response should be sent to me by return e-mail or by facsimile on facsimile number (03) 9614 0303. It should not be sent to the Company Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, not later than 9.30am EST on Thursday, 29 July 2010.

If you have any queries regarding any of the above, please let me know.

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Yours sincerely

Sent electronically without signature

James Gerraty
Manager Issuers, Melbourne