



ANNUAL REPORT 2011



CORPORATE DIRECTORY

Directors

Randal Swick (Managing Director and Executive Chairman)

Jeffrey Moore (Non-Executive Director)

Paul Hardie (Non-Executive Director)

Company Secretary

Michael Fry

Registered Office

Suite 33, Level 3
22 Railway Road
Subiaco WA 6008

Auditors

Deloitte Touche Tohmatsu
Woodside Plaza, Level 14,
240 St Georges Terrace
Perth WA 6000

Home Securities Exchange

ASX Limited
Exchange Plaza
2 The Esplanade
Perth WA 6000

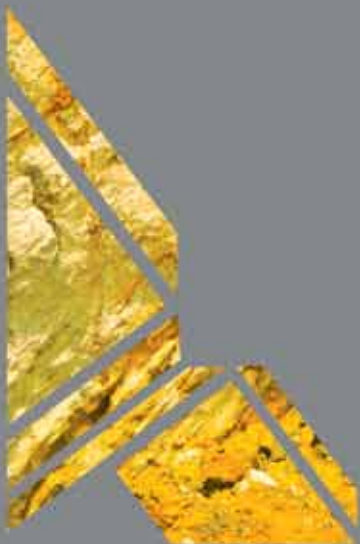
Share Registry

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153
Telephone: +61 8 9315 2333
Facsimile: +61 8 9315 2233

Website

www.cgm.com.au

ASX Code: CGM



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Through the exploration and development of mineral resources and the professional undertaking of contract drilling services, Cougar Metals is focused on delivering returns to its shareholders through increasing revenues and profitability.

CHAIRMAN AND MANAGING DIRECTOR'S REPORT

Dear Shareholders,

It is my pleasure to present the 2011 Annual Report for your company, Cougar Metals NL.

The 2011 financial year was a very rewarding year for the Company across both its contract drilling and gold exploration businesses. Significant revenues were generated in both, allowing the company to record its maiden profit.

After five years of being involved in the Alta Floresta project in the North of Mato Grosso state, Brazil, the Company progressed to being a gold producer, with the re-opening of historic underground workings at the Ze Vermelho Gold Prospect, which was very pleasing.

The results of development and from drilling at Ze Vermelho have been highly encouraging and much of the immediate focus will be on a continuation of this activity with a view to quantifying a resource.

The Company has a large landholding within the Alta Floresta gold belt, where past production is estimated at in excess of 5 million ounces of gold. The Company's granted tenements lie over what the Company's geological team consider to be the most prospective areas in the region.

The Company has identified a large number of high priority targets for testing and with both the contract drilling and gold exploration businesses generating strong cash-flows, it is expected that we will have the necessary funding internally to undertake meaningful exploration activity across the tenement portfolio.

Significant growth within the Company's drilling business during FY 2011 was possible due to foundations laid in prior years. The Company first established a drilling business in Brazil over four years ago after identifying a service gap in the market. The growing of the drilling division has not been an easy path to follow however we are experiencing a growing demand for our services as we become more accepted as a local operator.

Drilling Business Overview

The 2011 financial year witnessed a significant increase in drilling revenues from \$5.5 million in FY 2010 to \$18.7 million in FY 2011. This increase was principally due to the expansion into Uruguay following the award of a 75,000m drilling contract.

The increase in drilling revenue was accompanied by the expansion of the drilling fleet by a further four (4) rigs (1 RC, 1 RAB and 2 diamond rigs). With the exception of the RAB rig, which remains under finance, the rigs were purchased via internal cash flow during the course of the year.

Currently, the drilling fleet comprises nine (9) surface rigs in total (3 RC, 5 diamond and 1 RAB rig). The Company also supplements its owned rig fleet with hired rigs, and for the greater part of the year an additional four (4) surface diamond drilling rigs were hired.

Subsequent to the end of FY 2011, the Company commenced negotiations to acquire an additional RC rig which it expects to purchase and have shipped to Uruguay by December 2011. The Company has also heralded its intention to continue to grow its fleet throughout FY 2012 in order to meet increasing demand for its own drilling needs and contract drilling services within the region.

The Company operates market leading drill rigs and machinery and this reason, coupled with our ability to attract and retain competent drilling staff, allows us to deliver our clients a high quality drilling service. Cougar's South American drilling business is modelled against western standards of safety, productivity and reliability; characteristics many other drilling companies within the region are unable to match and afford us a competitive advantage.



CHAIRMAN AND MANAGING DIRECTOR'S REPORT

Whilst the short term global demand for commodities, and ultimately contract drilling services is hard to predict, market conditions in Brazil, Uruguay and more broadly South America remain relatively buoyant and as a result we expect a continued high utilisation of our drilling fleet.

Gold Division Overview

The 2011 financial year was also rewarding for the Company from the gold exploration perspective.

The highlight of the year was the commencement of gold production at the Company's 100% owned Ze Vermelho prospect in the Paranaita district. Whilst principally an exploration exercise, the narrow but rich vein encountered at Ze Vermelho has in recent times produced enough gold to fund the construction of the mine, purchase of associated processing equipment in addition to funding regional exploration.

Exploration drives at Ze Vermelho are being constructed at each 10 m level within the underground mine, with our current workings commencing at the -54 level and now being conducted at the -84 level. Ultimately the results obtained from these drives will be used to generate a resource figure prior to the remaining material being extracted. Gold has been initially extracted utilising a gravity processing plant and by the end of the 2011 financial year in excess of US \$2.2 million of gold sales had been generated from this process, a great achievement by the exploration team.

A further exciting aspect of the Ze Vermelho operations is the imminent commencement of cyanidation of the 2000+ tonnes of high grade tailings stockpiled at the site. This process is now expected to commence in late October and will allow for the treatment of over 500 tonnes of tailings per month with cyanide.

Exploration activities around the immediate mine area in FY 2011 will include a geophysical survey and further drilling in anticipation of extending the known areas of mineralisation and potentially discovering new or parallel structures.

Whilst the Ze Vermelho activities are no doubt a great milestone for the Company, significant exploration success was achieved elsewhere in the Company's project area during the 2011 financial year, with a number of targets being identified through surface sampling and geological assessment. These targets, in addition to those generated in the latter part of FY 2010, will initially be explored through a first pass drilling program. It is expected that the lessons learned through the activities at Ze Vermelho will assist the Company greatly in its efforts to effectively explore these targets and the remaining significant area under licence.

Summary

The results mentioned above do not come easily. Careful planning, calculated risks, personal sacrifice and hard work in often difficult conditions were necessary on the part of many people for this result to be achieved. My personal congratulations and thanks is extended to all the Company's staff and clients that played a role in these achievements, and I look forward to further success in the years ahead.

Yours faithfully



Randal Swick
Executive Chairman





DIRECTORS' REPORT

Your Directors present their report on the company and its controlled entities for the financial year ended 30 June 2011.

DIRECTORS

The names of the Directors in office and at any time during, or since the end of the year are:

Randal Swick Managing Director and Executive Chairman
Jeffrey Moore Non-Executive Director
Paul Hardie Non-Executive Director

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

COMPANY SECRETARY

Chris Bossong was appointed Company Secretary on 18 February 2010 and resigned from the position on 5 August 2011. Michael Fry was appointed Company Secretary on 5 August 2011.

PRINCIPAL ACTIVITIES

During the financial year, the Company's activities focussed on the following key areas:

- Exploration, evaluation and rationalisation of the Alta Floresta Gold Project in Brazil; and
- The provision of mineral drilling services to exploration and mining companies in Brazil and Uruguay.

The principal activities of the Company during the course of the financial year were:

- (a) Trial mining at the Ze Vermelho Gold Prospect, which has incorporated de-watering and clearing of debris from underground workings, and underground development beyond the extent of the existing historical workings in order to undertake sampling and extract ore;
- (b) Establishment of a gravity processing plant to treat the ore extracted from the underground workings at Ze Vermelho;
- (c) Exploration activities, including drilling, trenching and sampling, within the granted tenement area at the Company's Alta Floresta Gold Project in Mato Grosso, Brazil which was principally successful in advancing two new targets "Tamandua" and "Cidinha"; and
- (d) The provision of mineral drilling services to exploration and mining companies in Brazil and Uruguay through CGM's wholly owned subsidiaries GeoLogica Sondagens Ltda and Palinir S.A. trading as Cougar Drilling Services respectively.

OPERATING RESULTS

The Statement of Comprehensive Income shows revenue from ordinary activities for the Group for the year ended 30 June 2011 of \$21,803,936 (2010: \$5,501,312). The Statement of Comprehensive Income shows a net profit from ordinary activities after tax attributable to the members of the Group for the year ended 30 June 2011 of \$3,141,799 (2010: \$3,858,586 loss).

The net assets of the Consolidated Entity as at 30 June 2011 were \$10,801,554 (2010: \$7,215,675).

DIRECTORS' REPORT

DIVIDENDS PAID OR RECOMMENDED

The Directors recommend that no dividend be paid for the year ended 30 June 2011, nor have any amounts been paid or declared by way of dividend since the end of the previous financial year.

REVIEW OF OPERATIONS

Alta Floresta Project (Brazil)

Overview

The Alta Floresta Project is located within the Southern Amazon Craton in the northern part of Mato Grosso State in central west Brazil. The project comprises three discrete groups of tenements covering approximately 1,450km² within a 330km long portion of the Alta Floresta gold belt, where government records estimate past production in excess of five million ounces of gold. The tenement groups are located in the Peixoto/Novo Mundo, Paranaita and Apiacas regions respectively.

The project offers significant potential for discovery of large tonnage, disseminated gold deposits, as well as high-grade quartz-sulphide vein gold deposits. The potential for large deposits is evidenced by a plus 1 million ounce gold discovery 25km north of Peixoto, and by the widespread mineralisation now being outlined in Cougar's Apiacas and Peixoto tenements.

History

Gold was first discovered in the Alta Floresta mineral province over 30 years ago. Based on government reports, past production within the Alta Floresta Gold Belt is estimated at more than 5 million ounces. Virtually all of this gold was mined from alluvial material or weathered rock, stopping as fresh rock was encountered and gold recovery through gravity methods was no longer effective. Most mining ceased within the top 40m from surface. The main producers of gold in the region were local artisanal miners ("garimpeiros") who worked surface gold rich accumulations in creeks and drainages, and near surface, soft weathered clay rich zones, which yielded coarse gold.

Tenements

Many of the tenements comprising the Alta Floresta Project cover ground referred to as "Garimpeiro Reserves", which is considered the most prospective ground in the district. These reserves contain the areas where much of the historical mining activity has occurred and which were previously set aside and restricted to the exclusive use of garimpeiros.

Exploration Focus

The Company's exploration strategy is to preferentially focus on the identification of prospects and targets likely to represent large tonnage gold deposits within the Alta Floresta Mineral Province.

Exploration Activities for FY11

Cougar's exploration activities at the Alta Floresta Project during the 2011 financial year have predominantly focused on the Ze Vermelho Gold Prospect located within the the Paranaita District.

Mining at Ze Vermelho dates back to the early 1900's during the second gold rush in mid-west Brazil. The mining activity started as an open-cut mine to 30 metres depth and moved to underground mining through four timber-lined shafts, which all remain in good condition today. In 2003, Metamat, the Mato Grosso State Mining Company, estimated that 70,000 ounces of gold (or in excess of \$100 million worth of gold at today's spot price of \$1,500 per ounce) had been recovered up to 1996, when mining ceased.

The Company's initial geological and underground investigations of the existing garimpeiro workings at Ze Vermelho included accessing the timber-lined shafts which are developed to a maximum depth of 64 metres and along 150 metres of strike.

Those initial investigations showed that the shafts all intercepted a northwest trending sulphide-rich quartz vein up to 1.3 metres wide. Sampling of the underground workings returned extremely high gold grades of up to 80 g/t.

The initial investigations led the Company to commence trial mining at Ze Vermelho with material mined being initially treated by a simple gravity circuit (which the Company constructed) followed at a later date by cyanidation of the tails.

DIRECTORS' REPORT

The trial mining has enabled the Company to increase its understanding of the geological parameters pertaining to the mineralisation (such that it now understands that the high-grade gold is mostly associated with massive pyrite) whilst at the same time generating strong cash-flow to fund further exploration at Ze Vermelho and investment in capital. In the period to 30 June 2011, the Company achieved gold sales of approximately \$2.2 million from gravity processing of the ore; and had at surface approximately 2,000 tonnes of gravity plant tailings which are to be treated with cyanide when the cyanide treatment circuit is constructed and operational – expected to be in October 2011.

Outside of Ze Vermelho the Company continued to undertake mapping, rock chip, grab and channel sampling, and trenching to identify and advance new targets. The most significant results occurred at the Cidinha Gold Prospect where trench sampling returned high grade gold assays over a 650 metre strike length, open in both directions. More recently, the Company identified a new prospect “Tamandua” which returned high grade gold assays from trench samples taken over 300 metres of strike, which is located within 2.3 kilometres of Ze Vermelho. Both Cidinha and Tamandua are in the process of being drill-tested with results of assays expected in early October 2011.

Exploration Focus for FY12

Exploration focus for the coming year will again focus primarily on the Ze Vermelho Gold prospect with a geophysical survey planned for the first half which is expected to provide information to allow targeted drill-testing.

The Company will also undertake drill-testing and further evaluation of the Tamandua and Cidinha gold prospects whilst continuing to advance a number of other high priority prospects and targets through sampling, trenching and drilling.

Pyke Hill Project (Western Australia)

Previous exploration drilling conducted by Cougar at the Pyke Hill Project on M39/159 east of Leonora, Western Australia delineated a measured and indicated resource, using a 0.5 % nickel cut-off grade, of 14.7M tonnes at 0.90 % Ni and 0.06 % Co, which contains 131,000 tonnes of nickel and 8,800 tonnes of cobalt.

This resource is closed off in all directions. There are a set of variable grade vs tonnage figures, but further exploration or drilling will not significantly change this overall resource figure in terms of tonnes vs grade or contained metal. The Company is now focused on looking at all possibilities to advance the Project.

Drilling Business

Overview

Cougar, through its two wholly owned contract drilling companies, GeoLogica Sondagens Ltda (“GeoLogica”) and Palinir S.A. trading as Cougar Drilling Services (“CDS”), currently operates in Brazil and Uruguay.

Each of the drilling companies provides rotary air blast (“RAB”), reverse circulation (“RC”) and diamond drilling services to the mining and resources industries.

Activities for FY11

Brazil

GeoLogica is headquartered in the city of Belo Horizonte, Minas Gerais, Brazil. Since commencing operations in 2007 it has grown its fleet to 5 owned rigs, including 3 diamond, 1 RC and 1 RAB rig. In addition, it hires rigs from time to time to supplement its owned fleet, with 2 diamond rigs currently being on hire.

Cougar’s rig fleet in Brazil operated at full capacity for most of the year, however a competitive rate environment and difficult drilling conditions (encountered on one job specifically) impacted profitability.

With activity levels increasing, particularly for RC drilling, the Company is confident of an improved financial performance in 2012 financial year.

As at the date of this report, the Company is undertaking drilling programs for Beadell Resources Ltd and Serabi plc. This work, in conjunction with drilling on the company’s own tenements is expected to underscore rig demand throughout the 2012 financial year.

DIRECTORS' REPORT

Uruguay

Following the award of a drilling program in Uruguay in April 2010, which was the largest single drilling programme since inception of Cougar's drilling services business, Cougar mobilised rigs and support equipment to Uruguay, incorporated CDS, recruited and trained personnel, and commenced drilling operations in July 2010, a significant achievement given that no employees or equipment existed in the country prior to the award of the contract.

Cougar received considerable assistance from its client in Uruguay, Minera Aritiri, with the advance of a loan of US\$2.6 million. This advance assisted Cougar to fund the purchase of three new drilling rigs, associated equipment and drilling consumables.

As at the end of the financial year, the advance has been fully repaid to the client.

Recently, in addition to the work it undertakes for Minera Aritiri, CDS has been awarded work with public companies Gladiator Resources and B2 Gold, with the programs to be undertaken in 2012 financial year.

CDS has 4 owned rigs in Uruguay, being 2 RC rigs and 2 diamond rigs. In addition, it also hires rigs to supplement its owned fleet, and currently has 2 diamond rigs on hire.

CORPORATE ACTIVITIES

On 8 September 2010 the company granted 9,000,000 options exercisable at \$0.035 on or before 9 September 2013 to its Directors, such grant being approved by the Company's shareholders at a general meeting.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

No significant changes in the Group's state of affairs occurred during the financial year other than the following:

- On 8 September 2010 the company granted 9,000,000 options exercisable at \$0.035 on or before 9 September 2013 to Directors, as approved at the AGM.
- From August 2010 to January 2011 a further A\$650,000 of loan funds were received by the Company from Rosanne Swick. At 30 June 2011, A\$324,716 of this loan had been repaid.
- During the period July 2010 and September 2010, the Company received client advances totalling US\$2.6 million to assist the Company to fund purchases of drill rigs and associated equipment; such advances being progressively repaid during the period September 2010 and June 2011 such that as at 30 June 2011, the Company had fully repaid the advances.

AFTER BALANCE DATE EVENTS

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years except for the following:

- On 12 July 2011, a total of 15,000,000 options were issued to the Chief Financial Officer and Company Secretary, Michael Fry (in accordance with the terms of his employment contract) pursuant to the Company's Employee Share Option Plan as follows:
 - 5,000,000 unlisted options exercisable at \$0.041 on or before 4 July 2014;
 - 5,000,000 unlisted options exercisable at \$0.051 on or before 4 July 2014; and
 - 5,000,000 unlisted options exercisable at \$0.065 on or before 4 July 2014.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The focus of the Group moving forward is the continued expansion of the drilling business in South America to meet demand for quality mineral drilling services whilst continuing to explore the Alta Floresta Gold Project. A significant increase in drilling services and exploration activity is expected in the 2012 financial year.



DIRECTORS' REPORT

ENVIRONMENTAL ISSUES

The Group has a policy of at least complying with its environmental performance obligations. The Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

INFORMATION ON DIRECTORS

| | |
|---|---|
| Randal Swick | Managing Director and Executive Chairman |
| Qualifications | B.Eng. (Mech) |
| Experience | Randal Swick is a mechanical engineer with approximately 20 years experience in the metals and mining industry with a strong focus on gold and nickel exploration. Randal Swick brings considerable knowledge gained from experience as a drilling contractor and from his involvement in the management of several private companies involved in exploration and mining throughout Western Australia in both the surface and underground environments. |
| Special Responsibilities | Randal Swick is responsible for Cougar's wholly owned drilling business and spends the majority of his time in Brazil ensuring the continued growth of this business. |
| Interest in Shares and Options | 33,765,060 ordinary fully paid shares 3,000,000 options exercisable at \$0.035 on or before 9 September 2013 |
| Directorships held in other listed entities | Randal Swick has not been a Director of any other listed entities in the past three years. |

| | |
|---|---|
| Jeffrey Moore | Non-Executive Director |
| Qualifications | B.Sc. MAusIMM |
| Experience | Jeffrey Moore is a geologist with extensive technical, managerial and project finance experience in exploration and mining for publicly listed companies. During his career, he has generated and managed projects for commodities including precious metals, base metals, diamonds, nickel and industrial minerals throughout Australia, Central and South America, Africa and Asia. |
| Interest in Shares and Options | 2,000,000 ordinary fully paid shares 3,000,000 options exercisable at \$0.035 on or before 9 September 2013 |
| Directorships held in other listed entities | Allied Gold Limited – 10 February 2004 to 14 July 2008 Abra Mining Limited – 7 April 2006 to present Alchemy Resources Limited – 1 December 2010 to present Riedel Resources Limited – 30 September 2010 to present |

DIRECTORS' REPORT

| | |
|---|--|
| Paul Hardie | Non-Executive Director |
| Qualifications | B.Ec. LLB |
| Experience | Paul Hardie is a solicitor who specialises in providing corporate and general commercial advice to a number of public and private clients on a wide range of matters including mergers and acquisitions, initial public offerings and other capital raisings, property law and a variety of Corporations Act and Listing Rules compliance matters. Prior to establishing his own law practice, Paul Hardie gained extensive experience in areas of business management, commercial litigation and property law and was part of the mergers and acquisitions team of a large national law firm. |
| Interest in Shares and Options | 25,000 contributing shares 3,000,000 options exercisable at \$0.035 on or before 9 September 2013 |
| Directorships held in other listed entities | Indago Resources Limited – 15 October 2009 to present (recently de-listed) |

REMUNERATION REPORT - AUDITED

This report details the nature and amount of remuneration for each Director of Cougar Metals NL, and for the executives receiving the highest remuneration.

Remuneration Policy

The Board of Directors established a Remuneration Committee for the purpose of reviewing and making recommendations with respect to the remuneration practices of the Company. The Board of Directors prepared and approved a charter as the basis on which the committee will be constituted and operated. The role of the Remuneration Committee is to provide an independent mechanism for the determination, implementation and assessment of the remuneration practices of the Company, including remuneration packages and incentive schemes for executive Directors and senior management, and fees payable to Non-Executive Directors.

The remuneration policy of Cougar Metals NL and its Controlled Entities has been designed to align Director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on share price performance. The Board believes that remuneration policy is appropriate and effective in its ability to attract, retain and motivate suitably qualified and experienced Directors and executives to run and manage the economic entity, as well as create goal congruence between the Directors and executives and the Company's shareholders.

Specifically, the remuneration policy has been put in place to ensure that:

- (1) remuneration policies and systems support the Company's wider objectives and strategies;
- (2) Directors' and senior executives remuneration is aligned to the long-term interests of shareholders within an appropriate control framework;
- (3) Directors' and senior executives remuneration reflect the persons' duties and responsibilities;
- (4) Directors' and senior executives remuneration is comparative in attracting, retaining and motivating suitably qualified and experienced people; and
- (5) there is a clear relationship between performance and remuneration.

DIRECTORS' REPORT

The tables below set out summary information about the Consolidated Entity's earnings and movements in shareholder wealth for the five years to 30 June 2011:

| | 30 June 2011 | 30 June 2010 | 30 June 2009 | 30 June 2008 | 30 June 2007 |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| | \$ | \$ | \$ | \$ | \$ |
| Revenue | 21,808,422 | 5,649,045 | 5,471,827 | 3,499,832 | 268,270 |
| Net profit/(loss) before tax | 4,045,953 | (3,858,586) | (2,202,477) | (2,983,680) | (4,287,735) |
| Net profit/(loss) after tax | 3,141,799 | (3,858,586) | (2,202,477) | (2,983,680) | (4,073,247) |

| | 30 June 2011 | 30 June 2010 | 30 June 2009 | 30 June 2008 | 30 June 2007 |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Share price at start of year | \$0.0200 | \$0.0300 | \$0.0700 | \$0.2100 | \$0.3600 |
| Share price at end of year | \$0.0500 | \$0.0200 | \$0.0300 | \$0.0700 | \$0.2100 |
| Dividend | - | - | - | - | - |
| Basic earnings / (loss) per share | \$0.0077 | (\$0.0126) | (\$0.0131) | (\$0.0393) | (\$0.0601) |
| Diluted earnings / (loss) per share | \$0.0077 | (\$0.0126) | (\$0.0131) | (\$0.0393) | (\$0.0524) |

All remuneration paid to Directors and executives is valued at the cost to the Company and expensed. Options are valued using the Black-Scholes methodology or other accepted methodologies.

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director, executive Director and senior executive management remuneration is separate.

Non-Executive Director Remuneration

Objective

The Board seeks to set remuneration at a level which provides the Company with the ability to attract and retain suitably qualified and experienced Directors, whilst incurring a cost which is acceptable to shareholders.

Structure

Each Non-Executive Director receives a fee for being a Director of the Company. Non-Executive Directors should be adequately remunerated for their time and effort and the risks involved. Non-Executive Directors are remunerated to recognise the responsibilities, accountabilities and associated risks of being a Director. All Non-Executive Directors' performance and remuneration is reviewed on an annual basis by the Managing Director, who in turn makes a recommendation to the Remuneration Committee. The Company has two Non-Executive Directors being Jeffrey Moore, who receives \$36,000 per annum plus superannuation of 9% and Paul Hardie, who receives \$36,000 per annum. Non-Executive Directors are eligible to participate in employee share and option arrangements.

Board operating costs do not form part of Non-Executive Directors' remuneration.

Executive Directors and Senior Executives Remuneration

Objective

The Company aims to reward executive Directors and senior executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company.

DIRECTORS' REPORT

Fixed Remuneration

The components of the executive Directors and senior executives fixed remuneration are determined individually and may include:

- (1) cash remuneration;
- (2) superannuation contributions made by the Company;
- (3) accommodation and travel benefits;
- (4) motor vehicle, parking and other benefits; and
- (5) reimbursement of entertainment, home office and telephone expenses.

The senior executives' remuneration is reviewed on an annual basis by the Managing Director, who in turn makes a recommendation to the Remuneration Committee. However due to prevailing market conditions, the Managing Director recommended a review of the remuneration not be undertaken for 30 June 2011.

In determining a remuneration package, the Remuneration Committee reviews the individual's remuneration relative to positions in comparable companies through the use of market data. Where appropriate, the package is adjusted to keep pace with market trends and ensure continued remuneration competitiveness. In conducting a comparative analysis, the Company's expected performance for the year would be considered in the context of the Company's capacity to fund remuneration budgets. From time to time, a review of the total remuneration package by an independent consultant in this field may be undertaken to provide an independent reference point.

Variable Remuneration

The executive Directors and senior executives may receive variable remuneration as follows:

- (1) short term incentives - the executive Directors and senior executives are eligible to participate in a bonus if so determined by the Board and Remuneration Committee; and
- (2) long term incentives - the executive Directors and senior executives are eligible to receive shares and options if so determined by the Board and Remuneration Committee.

Employment Contracts

During the year, the Consolidated Entity had entered into employment contracts with the following executive Directors:

Randal Swick

The key terms of Randal Swick's current service agreement, through Vedrell Pty Ltd, are as follows:

- The service arrangement continues until terminated.
- Remuneration is required to be reviewed every six months by the Remuneration Committee.
- There are no termination benefits at the completion of the contract term. However, if the Company wishes to terminate the contract, other than if Randal Swick was found guilty of any gross misconduct or a serious and persistent breach of the service agreement, the Company is required to pay to Randal Swick that amount which otherwise would have been paid under the service agreement for a period of six months, plus an additional two months (calculated on a pro rata basis) in respect of each year of service, and vehicle expenses in the amount of \$10,000.

DIRECTORS' REPORT

Details of Remuneration for the year ended 30 June 2011

The remuneration for each Director and Key Management Personnel of the Group during the year was as follows:

| 2011 | Short Term Employee Benefits | | | Post Employment Benefits | Share Based Payments | Total | % Options as Compensation |
|---------------------------------|------------------------------|---------------|-------------------|------------------------------|----------------------|----------------|---------------------------|
| | Salary, Fees and Commissions | Other | Non-Cash Benefits | Superannuation Contributions | Options | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | % |
| Key Management Personnel | | | | | | | |
| Randal Swick | 192,500 | 30,909 | - | - | 53,400 | 276,809 | 19% |
| Jeffrey Moore | 36,000 | - | - | 3,240 | 53,400 | 92,640 | 58% |
| Paul Hardie | 36,000 | - | - | - | 53,400 | 89,400 | 60% |
| Chris Bossong | 98,132 | 1,491 | - | - | - | 99,623 | 0% |
| Jayme Leite | 117,332 | - | - | - | - | 117,332 | 0% |
| | 479,964 | 32,400 | - | 3,240 | 160,200 | 675,804 | 30% |

| 2010 | Short Term Employee Benefits | | | Post Employment Benefits | Share Based Payments | Total | % Options as Compensation |
|---|------------------------------|---------------|-------------------|------------------------------|----------------------|----------------|---------------------------|
| | Salary, Fees and Commissions | Other | Non-Cash Benefits | Superannuation Contributions | Options | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | % |
| Key Management Personnel | | | | | | | |
| Randal Swick | 157,084 | 9,335 | - | - | - | 166,419 | 0% |
| Ian Herbison (resigned 18 February 2010) | 88,375 | 410 | - | - | - | 88,785 | 0% |
| Jeffrey Moore | 35,916 | - | - | 3,510 | - | 39,426 | 0% |
| Paul Hardie | 13,286 | - | - | - | - | 13,286 | 0% |
| Melissa Fry (resigned 30 November 2009) | 23,250 | - | - | - | - | 23,250 | 0% |
| Chris Bossong | 45,307 | 354 | - | - | - | 45,661 | 0% |
| Jayme Leite | 122,357 | - | - | - | - | 122,357 | 0% |
| | 485,575 | 10,099 | - | 3,510 | - | 499,184 | 0% |

Notes:

- (1) Salary includes consulting fees paid to Directors and to related parties of Directors.
- (2) There are no other contracts to which a Director is a party or under which a Director is entitled to a benefit other than as disclosed in this report or the financial statements.
- (3) All Directors are engaged through Cougar Metals NL.

DIRECTORS' REPORT

Options and Rights Holdings

On 8 September 2010 the company granted 9,000,000 options exercisable at \$0.035 on or before 9 September 2013 to Directors, as approved at a general meeting. The fair value of these options at grant date was \$0.0048 each. The options vested immediately.

Other than above, no options were vested, exercised or lapsed during the year.

MEETING OF DIRECTORS

During the financial year, two meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

| Director | Board Meetings | | Audit and Compliance Committee Meetings | |
|---------------|---------------------------|-----------------|---|-----------------|
| | Number Eligible to Attend | Number Attended | Number Eligible to Attend | Number Attended |
| Randal Swick | 2 | 2 | - | - |
| Jeffrey Moore | 2 | 2 | 1 | 1 |
| Paul Hardie | 2 | 2 | 1 | 1 |

INDEMNIFYING OFFICERS OR AUDITOR

During the financial year the Company entered into a deed of indemnity, insurance and access with Paul Hardie. The Company has previously entered into deeds of indemnity, insurance and access (**Deeds**) with all other Directors which continue to be relevant. Under these Deeds, the Company agreed to indemnify the Directors (to the maximum extent permitted by the Corporations Act 2001) against any liability incurred by the Directors in their capacity as officers of the Company. The Company is required to maintain insurance policies for the benefit of each Director for the term of the appointment (and for at least 7 years after the Director ceases to be an officer of the Company) and must also allow the Directors to inspect Board papers in certain circumstances. Since the end of the previous financial year, the Company has not paid any insurance premiums in respect of Directors' insurance contracts. The Company has not entered into any agreement to indemnify Deloitte Touche Tohmatsu against any claims by third parties arising from their report on the annual financial report.

OPTIONS

At the date of this report, there were 24,000,000 unlisted options on issue as follows:

- 9,000,000 unlisted options exercisable at \$0.035 on or before 9 September 2013;
- 5,000,000 unlisted options exercisable at \$0.041 on or before 4 July 2014;
- 5,000,000 unlisted options exercisable at \$0.051 on or before 4 July 2014; and
- 5,000,000 unlisted options exercisable at \$0.065 on or before 4 July 2014.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

CORPORATE GOVERNANCE

The Board of Directors is responsible for the corporate governance of the Company and has adopted a range of corporate governance policies consistent with the second edition of "Principles of Good Corporate Governance and Recommendations" released by the ASX Corporate Governance Council in 2007, to the extent that such recommendations are consistent with the current structure and objectives of the Company.

DIRECTORS' REPORT

AUDITOR

Non-Audit Services

The Company may decide to employ its auditor Deloitte Touche Tohmatsu on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or Group are important.

The Board of Directors has considered the position and, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non audit services have been reviewed to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement APES110, including reviewing or auditing the auditor's own work, acting in a management or a decision making capacity for the Group, acting as advocate for the Group or jointly sharing economic risk and rewards.

Auditor's Declaration of Independence

The auditor's independence declaration for the year ended 30 June 2011 has been received and can be found on page 16.

Signed in accordance with a resolution of the Board of Directors in accordance with s298(2) of the Corporations Act 2001.



Randal Swick
Executive Chairman

Dated this 30 day of September 2011

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Woodside Plaza
Level 14
240 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 (0) 8 9365 7000
Fax: +61 (8) 9365 7001
www.deloitte.com.au

The Board of Directors
Cougar Metals NL
Suite 33, Level 3
22 Railway Road
SUBIACO WA 6008

2 October 2011

Dear Board Members

Cougar Metals NL

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Cougar Metals NL and its controlled entities.

As lead audit partner for the audit of the financial statements of Cougar Metals NL and its controlled entities for the financial year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours Sincerely



Deloitte Touche Tohmatsu



Chris Nicoloff
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited

Financial Statements



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 30 June 2011

| | Note | Consolidated 2011 \$ | Consolidated 2010 \$ |
|---|------|----------------------------|----------------------------|
| Revenue | 2 | 21,803,936 | 5,501,312 |
| Finance revenue | 2 | 2,228 | 19,192 |
| Other revenue | 2 | 2,258 | 128,541 |
| | | 21,808,422 | 5,649,045 |
| Accounting and audit expenses | 3 | (96,574) | (68,899) |
| Corporate expenditure and professional fees | 3 | (39,298) | (148,194) |
| Depreciation expense | 3 | (1,339,868) | (797,295) |
| Drilling expenses | 3 | (14,892,233) | (5,177,852) |
| Exploration costs impaired | 3 | 408 | (1,493,943) |
| Finance costs | 3 | (576,464) | (109,660) |
| Occupancy expenses | 3 | (19,703) | (154,981) |
| Office administration expenses | 3 | (416,460) | (278,888) |
| Other expenses from ordinary activities | 3 | (222,077) | (1,277,919) |
| Share based payments expense | | (160,200) | - |
| Profit / (loss) before income tax benefit | | 4,045,953 | (3,858,586) |
| Income tax benefit / (expense) | 4 | (904,154) | - |
| Net profit / (loss) for the year | | 3,141,799 | (3,858,586) |
| Other comprehensive income for the year | | | |
| Exchange differences arising on translation of foreign operations | | 283,880 | (98,095) |
| Other comprehensive income for the year | | 283,880 | (98,095) |
| Total comprehensive income for the year | | 3,425,679 | (3,956,681) |
| | | 3,425,679 | (3,956,681) |
| Basic earnings / (loss) per share (cents) | 7 | 0.77 | (1.26) |
| Diluted earnings / (loss) per share (cents) | 7 | 0.77 | (1.26) |

The accompanying notes form part of this financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

| | Note | Consolidated 2011 \$ | Consolidated 2010 \$ |
|--|------|----------------------------|----------------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 8 | 208,903 | 233,541 |
| Trade and other receivables | 9 | 2,389,039 | 456,712 |
| Inventory | 10 | 697,824 | - |
| Other current assets | 11 | 43,491 | 118,659 |
| Total Current Assets | | 3,339,257 | 808,912 |
| Non-Current Assets | | | |
| Property, plant and equipment | 13 | 4,182,024 | 3,179,923 |
| Exploration and evaluation expenditure | 14 | 6,111,755 | 5,358,797 |
| Total Non-Current Assets | | 10,293,779 | 8,538,720 |
| Total Assets | | 13,633,036 | 9,347,632 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and other payables | 15 | 1,487,200 | 875,805 |
| Provisions | 16 | 920,022 | 14,110 |
| Interest bearing loans and borrowings | 17 | 424,260 | 64,696 |
| Deferred revenue | 18 | - | 1,177,346 |
| Total Current Liabilities | | 2,831,482 | 2,131,957 |
| Total Liabilities | | 2,831,482 | 2,131,957 |
| Net Assets | | 10,801,554 | 7,215,675 |
| EQUITY | | | |
| Issued capital | 19 | 20,420,122 | 20,420,122 |
| Foreign exchange reserve | 20 | 89,774 | (194,106) |
| Other reserve | 20 | 389,465 | 229,265 |
| Accumulated losses | | (10,097,807) | (13,239,606) |
| Total Equity | | 10,801,554 | 7,215,675 |

The accompanying notes form part of this financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2011

| | Issued Capital | Accumulated Losses | Foreign Exchange Reserve | Share Based Payments Reserves | Total Equity |
|---|-------------------|---------------------|--------------------------|-------------------------------|-------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Consolidated | | | | | |
| Balance at 1 July 2009 | 15,125,629 | (9,381,020) | (96,011) | 229,265 | 5,877,863 |
| Loss for the year | - | (3,858,586) | - | - | (3,858,586) |
| Foreign currency translation | - | - | (98,095) | - | (98,095) |
| Total comprehensive income for the year | - | (3,858,586) | (98,095) | - | (3,956,681) |
| Shares issued during the year | 5,531,426 | - | - | - | 5,531,426 |
| Capital raising costs | (236,933) | - | - | - | (236,933) |
| Balance at 30 June 2010 | 20,420,122 | (13,239,606) | (194,106) | 229,265 | 7,215,675 |
| Profit for the year | - | 3,141,799 | - | - | 3,141,799 |
| Foreign currency translation | - | - | 283,880 | - | 283,880 |
| Total comprehensive income for the year | - | 3,141,799 | 283,880 | - | 3,425,679 |
| Share based payments | - | - | - | 160,200 | 160,200 |
| Shares issued during the year | - | - | - | - | - |
| Capital raising costs | - | - | - | - | - |
| Balance at 30 June 2011 | 20,420,122 | (10,097,807) | 89,774 | 389,465 | 10,801,554 |

The accompanying notes form part of this financial report.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2011

| | Note | Consolidated 2011 \$ | Consolidated 2010 \$ |
|--|------|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 18,694,263 | 5,579,764 |
| Payments to suppliers and employees | | (14,961,190) | (5,204,237) |
| Interest received | | 2,228 | 21,066 |
| Interest paid | | (529,596) | (2,331) |
| Net generated by operating activities | 8a | 3,205,705 | 394,262 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of plant and equipment | | (2,773,633) | (1,057,003) |
| Payments for exploration and evaluation | | (769,406) | (3,186,763) |
| Net (cash used in) investing activities | | (3,543,039) | (4,243,766) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of securities | | - | 2,681,426 |
| Payment of share issue costs | | - | (236,933) |
| Proceeds from loan | | 660,963 | 1,432,522 |
| Repayment of borrowings | | (348,267) | (112,572) |
| Net (cash used in) / generated by financing activities | | 312,696 | 3,764,443 |
| Net increase/(decrease) in cash held | | (24,638) | (85,061) |
| Cash at beginning of financial year | 8 | 233,541 | 318,602 |
| Cash at end of financial year | 8 | 208,903 | 233,541 |

The accompanying notes form part of this financial report.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies

(a) Basis of Preparation

Cougar Metals NL (the “Parent” or the “Company”) is a public company listed on the Australian Securities Exchange Limited (“ASX”) and is incorporated in Australia. Cougar Metals NL and its subsidiaries (collectively referred to as the “Cougar Metals Group” or the “Group”) operate in Western Australia and throughout the geographical region of Brazil and Uruguay. The financial report of the Company and its controlled entities for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 30 September 2011.

The financial report has been prepared on a historical cost basis, except where stated, and does not take into account changing money values or fair values of assets. In applying AIFRS, management is required to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of AIFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported. These accounting policies are consistently applied by each entity in the group. The significant accounting policies set out below have been applied in the preparation and presentation of the financial report for the year ended 30 June 2011 and the comparative information.

(b) New standards and interpretations

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out below.

Standards and interpretations affecting amounts reported in the current period (and/or prior periods)

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in the section below.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (Continued)

| | |
|--|--|
| Amendments to AASB 7 'Financial Instruments: Disclosure' (adopted in advance of effective date of 1 January 2011) | The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. |
| Amendments to AASB 5 'Non-current Assets Held for Sale and Discontinued Operations' | Disclosures in these financial statements have been modified to reflect the clarification in AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project' that the disclosure requirements in Standards other than AASB 5 do not generally apply to noncurrent assets classified as held for sale and discontinued operations. |
| Amendments to AASB 101 'Presentation of Financial Statements' (adopted in advance of effective date of 1 January 2011) | The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. |
| Amendments to AASB 107 'Statement of Cash Flows' | The amendments (part of AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. Consequently, cash flows in respect of development costs that do not meet the criteria in AASB 138 'Intangible Assets' for capitalisation as part of an internally generated intangible asset (and, therefore, are recognised in profit or loss as incurred) have been reclassified from investing to operating activities in the statement of cash flows. |

Standards and Interpretations affecting the reported results or financial position. There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position.

Standards and Interpretations adopted with no effect on financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (Continued)

| | |
|---|--|
| AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project' | Except for the amendments to AASB 5 and AASB 107 described earlier this section, the application of AASB 2009-5 has not had any material effect on amounts reported in the financial statements. |
| AASB 2009-8 'Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions' | The application of AASB 2009-8 makes amendments to AASB 2 'Share-based Payment' to clarify the scope of AASB 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award. |
| AASB 2009-10 'Amendments to Australian Accounting Standards – Classification of Rights Issues' | The application of AASB 2009-10 makes amendments to AASB 132 'Financial Instruments: Presentation' to address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. |
| AASB 2010-3 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project' | The application of AASB 2010-3 makes amendments to AASB 3(2008) 'Business Combinations' to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, the application of AASB 2010-3 makes amendments to AASB 3(2008) to give more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with AASB 2 'Share-based Payment' at the acquisition date ('market-based measure'). |
| AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project' | Except for the amendments to AASB 7 and AASB 101 described earlier this section, the application of AASB 2010-4 has not had any material effect on amounts reported in the financial statements. |
| Interpretation 19 'Extinguishing Financial Liabilities with Equity Instruments' | This Interpretation provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular, the equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss. To date, the Group has not entered into transactions of this nature. |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (Continued)

Standards and Interpretations in issue not yet adopted

AASB108.30, 31 At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

| Standard/Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|--|---|
| AASB 124 'Related Party Disclosures' (revised December 2009), AASB 2009-12 'Amendments to Australian Accounting Standards' | 1 January 2011 | 30 June 2012 |
| AASB 9 'Financial Instruments', AASB 2009- 11 'Amendments to Australian Accounting Standards arising from AASB 9' and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)' | 1 January 2013 | 30 June 2014 |
| AASB 2009-14 'Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement' | 1 January 2011 | 30 June 2012 |
| AASB 2010-5 'Amendments to Australian Accounting Standards' | 1 January 2011 | 30 June 2012 |
| AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets' | 1 July 2011 | 30 June 2012 |
| AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets' | 1 January 2012 | 30 June 2013 |

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

| Standard/Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|-----------------------------|--|---|
| None at time of publication | 1 January 2011 | 30 June 2012 |

(c) Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 and applicable Australian Accounting Standards including Australian interpretations.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial statements and notes of the Group comply with IFRS.

(d) Going Concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Consolidated Entity has generated a profit for the year of \$3,141,799 (Company: profit \$15,492) and had net cash out flows from operating and investing activities of \$337,334.

As at 30 June 2011, the Consolidated Entity has net current assets of \$507,775 (Company: net current liabilities \$446,246), which includes \$208,903 in cash and cash equivalents (Company: \$58,294), \$2,389,039 in trade receivables (Company \$202,352) and \$1,487,200 in trade and other payables (Company: \$373,628).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (Continued)

The ability of the Company and Consolidated Entity to continue as going concerns is principally dependent upon the ability of the consolidated entity to continue to generate positive cash flows from:

- (1) its contract drilling business in Brazil and Uruguay, including extending existing drilling contracts at comparable rates; and
- (2) the ongoing trial mining at Ze Vermelho, Brazil for which a JORC compliant resource is still in the process of being finalised.

In the event the above matters are not achieved, the Company will likely be required to raise funds for working capital from debt or equity sources.

The Directors have reviewed the Company and Consolidated Entity's overall position and outlook in respect of the matters identified above and are of the opinion that the use of the going concern basis is appropriate in the circumstances.

However, if the Company and Consolidated Entity are unable to achieve successful outcomes in relation to the matters discussed above, there is significant uncertainty whether the Company and Consolidated Entity will be able to continue as going concerns.

Should the Company and Consolidated Entity be unable to continue as going concerns, they may be required to realise their assets and extinguish their liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the consolidated entity and Company be unable to continue as going concern concerns.

The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company and the Consolidated Entity be unable to continue as going concerns.

(e) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all of the entities that comprise the consolidated entity Cougar Metals NL (the "Parent").

The financial statements of subsidiaries are prepared for the same reporting period as the Parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the Company has control.

(f) Foreign Currency Transactions and Balances

For the purpose of this report, the functional and presentation currency adopted is Australian Dollars.

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian Dollars, which is the presentation currency for the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (Continued)

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rate prevailing on the date the fair values were determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the income statement in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

On consolidation, the assets and liabilities of the Group's foreign operations (including comparatives) are translated in to Australian dollars at exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve.

(g) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and deposits repayable on demand with a financial institution. Cash balances and overdrafts in the balance sheet are stated at gross amounts with current assets and current liabilities, unless there is legal right of offset at the bank. The cash and cash equivalents balance primarily consists of cash, on call in bank deposits, bank term deposit with three month maturity and money market investments readily convertible into cash within 2 working days, net of outstanding bank overdrafts. Bank overdrafts are carried at the principal amount.

(h) Trade and other receivables

Trade receivables which generally have 30-60 days terms are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. The Group reviews the collectability of trade receivables on an ongoing basis and makes an objective judgement concerning amounts considered not collectible. The amount of the loss is recognised in the income statement within operating expenses and classified as doubtful debts. Any subsequent recovery of amounts previously written off, are recorded as other income in the income statement.

(i) Inventory

Ore tailings are physically measured or estimated and valued at the lower of cost and net realisable value.

(j) Recoverable Amount of Non-Current Assets

Non-current assets valued on the cost basis are not carried at an amount above their recoverable amount, and where a carrying value exceeds the recoverable amount, the asset is written down to the lower amount. The write-down is recognised as an expense in the net profit or loss in the reporting period in which it occurs. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

(k) Impairment of Non-Financial Assets

At each reporting date the Company conducts an internal review of asset values of its non financial assets to determine whether there is any evidence that the assets are impaired. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are independent cash inflows (cash generating units).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (Continued)

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit or group of units on a pro rata basis.

(l) Plant and Equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes acquisition, being the fair value of the consideration provided, plus incidental costs directly attributable to the acquisition.

Subsequent costs directly related to an item of property are recognised in the carrying amount of that item of property plant and equipment only when it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs, including repairs and maintenance, are recognised in the income statement as an expense.

Depreciation is recognised in the income statement on a straight-line or diminishing value basis over the estimated useful life of each part of an item of property plant and equipment. Those items of property, plant and equipment under construction are not depreciated.

The following useful lives are used in the calculation of depreciation for each class of property, plant and equipment:

| | |
|--------------------------|--------------|
| Leasehold Improvements | 5 years |
| Plant and Machinery | 5 – 10 years |
| Drilling Rigs | 7 – 10 years |
| Other Drilling Equipment | 5 – 10 years |
| Office Equipment | 5 – 10 years |

(m) Leased Assets

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreements as to reflect the risks and benefits incidental to ownership. Operating lease payments are leases under which the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item are recognised as an expense on a straight-line basis.

A finance lease effectively transfers to the lessee substantially all the risks and benefits incidental to ownership of the leased item, capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and recognised directly in net profit.

The cost of improvements to or on leased property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

(n) Trade and Other Payables

Trade payables and other payables are carried at amortised cost. They represent unsecured liabilities for goods and services procured by the Cougar Metals Group prior to the financial period that remain unpaid and occur when the Group becomes obligated to make future payments. The amounts are unsecured and are usually paid within 30 days of recognition.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (Continued)

(o) Employee Benefits

Liabilities for employee related benefits comprising wages, salaries, annual leave and long service leave are categorised as present obligations resulting from employees services provided up to and including the reporting date. The liabilities are calculated at discounted amounts based on remuneration wage and salary rates the Group expects to pay as at reporting date including related on-costs, such as payroll tax and workers compensation insurance, when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to report date.

Employee superannuation entitlements are charged as an expense when they are incurred and recognised as other creditors until the contribution is paid. Employee benefit expenses and revenues are recognised against profits on a net basis in their respective categories.

(p) Loans and Borrowings

Loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs incurred. Borrowings are subsequently measured at amortised cost utilising the effective interest rate method. Difference occurring between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. All borrowing costs are recognised as an expense in the period in which they are incurred.

(q) Financial Instruments

Debt and Equity Instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial Assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as fair value through profit or loss which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Company financial statements. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the Company financial statements.

Loans and Receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Non-current loans and receivables are measured at amortised cost using the effective interest rate method less impairment. Interest is recognised by applying the effective interest rate. Current trade receivables are recorded at the invoiced amount and do not bear interest.

Financial Liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (Continued)

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(r) Revenue Recognition

Revenue from the sale of goods and rendering of services is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, volume rebates and sales taxes. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs or services and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. Transfers of risks and rewards vary depending on the individual terms of the contract of sale and with local statute, but are generally when title and insurance risk has passed to the customer and the goods have been delivered to a contractually agreed location. Interest revenue is recognised as it accrues using the effective interest rate method.

(s) Current and Deferred Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, in respect of all temporary differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Temporary differences are differences between the Group's tax base of an asset or liability and its carrying amount in the statement of financial position.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences or unused tax losses and tax credits can be deducted. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(t) Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (Continued)

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets that relate to employee benefit arrangements are recognised and measured in accordance with AASB 112 *Income Taxes* and AASB 119 *Employee Benefits* respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share based payment awards are measured in accordance with AASB 2 *Share-based Payment*; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 *Noncurrent Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

(u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(v) Earnings per Share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share are calculated as net profit attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as an expense; and
- Other non discretionary changes in revenue or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (Continued)

(w) Share Based Payments

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'). The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ('market conditions'). The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

(x) Exploration and Evaluation

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

- (i) the rights to tenure of the area of interest are current; and
- (ii) at least one of the following conditions is also met:
 - (a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
 - (b) exploration and evaluation activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortisation of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (or the cash-generating unit(s) to which it has been allocated, being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision is made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (Continued)

(y) Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Revenue recognition

In making their judgement, the directors considered the detailed criteria for the recognition of revenue from the sale of goods set out in AASB 118 'Revenue' and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods. The Directors are satisfied that the significant risks and rewards have been transferred and that recognition of the revenue in the current year is appropriate.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property, plant and equipment

As described at 3.18 above, the Group reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. During the current year, the directors determined that the useful lives of certain items of equipment should be shortened, due to developments in technology.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

2 Revenue

| | Consolidated 2011 \$ | Consolidated 2010 \$ |
|-------------------|----------------------------|----------------------------|
| Sales revenue | 21,803,936 | 5,501,312 |
| Interest received | 2,228 | 19,192 |
| Other revenue | 2,258 | 128,541 |
| Total revenue | 21,808,422 | 5,649,045 |

3 Expenses

| | | |
|---|------------|-----------|
| Expenses | | |
| Accounting and audit expenses | 96,574 | 68,899 |
| Corporate expenditure and professional fees | 39,298 | 148,194 |
| Depreciation expense | 1,339,868 | 797,295 |
| Drilling expenses | 8,683,594 | 4,081,261 |
| Employee benefits expense | 6,208,639 | 1,650,755 |
| Exploration costs impaired | (408) | 1,493,943 |
| Finance costs | 576,464 | 109,660 |
| Occupancy expenses | 19,703 | 154,981 |
| Office administration expenses | 416,460 | 278,888 |
| Other expenses from ordinary activities | 222,077 | 723,755 |
| Share based payments expense | 160,200 | - |
| Total expenses | 17,762,469 | 9,507,631 |

4 Income tax benefit

Major components of income tax expense for the years ended 30 June 2011 and 30 June 2010 are:

(a) Income tax recognised in profit and loss

| | | |
|---|---------|---|
| Current income | | |
| Current income tax charge | 904,154 | - |
| Adjustments in respect of previous current income tax | - | - |
| Deferred income tax | | |
| Relating to origination and reversal of temporary differences | - | - |
| Benefit from previously unrecognised tax loss used to reduce deferred tax expense | - | - |
| Income tax expense (benefit) reported in income statement | 904,154 | - |

A reconciliation of income tax expense (benefit) applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the company's effective income tax rate for the Years ended 30 June 2011 and 30 June 2010 is as follows:

| | | |
|--|-----------|-------------|
| Accounting profit / (loss) before tax from continuing operations | 4,045,953 | (3,956,681) |
| Loss before tax from discontinued operations | - | - |
| Accounting profit / (loss) before income tax | 4,045,953 | (3,956,681) |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

4 Income tax benefit (Continued)

| | Consolidated 2011 \$ | Consolidated 2010 \$ |
|---|----------------------------|----------------------------|
| At the statutory income tax rate of 30 % (2010: 30 %) | 1,213,786 | (1,187,004) |
| Add: | | |
| Non-deductible expenses | 48,060 | 987 |
| Temporary differences not recognised | (4,895) | 15,254 |
| Tax loss not brought to account as a deferred tax asset | - | 493,937 |
| Utilisation of tax loss not previously recognised | (167,903) | - |
| Recognition of tax loss not previously recognised | (4,063) | - |
| Less: | | |
| Non assessable non exempt | - | 676,826 |
| Difference in overseas tax rate | (180,831) | - |
| | <u>904,154</u> | <u>-</u> |
| At effective income tax rate of 22 % (2010: 0 %) | 904,154 | - |
| Income tax expense reported in income statement | 904,154 | - |
| Income tax attributable to discontinued operation | - | - |
| | <u>904,154</u> | <u>-</u> |

(b) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Consolidated Assets | | Consolidated Liabilities | | Consolidated Net | |
|------------------------------|-----------------------|-----------------------|--------------------------|-----------------------|-----------------------|-----------------------|
| | 30 June 2011 \$ | 30 June 2010 \$ | 30 June 2011 \$ | 30 June 2010 \$ | 30 June 2011 \$ | 30 June 2010 \$ |
| Trade and other receivables | - | - | - | 93 | - | 93 |
| Deferred exploration costs | - | - | 9,175 | 5,018 | 9,175 | 5,018 |
| Employee benefits | - | - | - | - | - | - |
| Tax losses | (9,175) | (5,111) | - | - | (9,175) | (5,111) |
| Tax (assets)/liabilities | (9,175) | (5,111) | 9,175 | 5,111 | - | - |
| Set off of tax | 9,175 | 5,111 | (9,175) | (5,111) | - | - |
| Net tax (assets)/liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

4 Income tax benefit (Continued)

| | Balance 30 June 2010 | Recognised in Income | Recognised in Equity | Balance 30 June 2011 |
|-----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | \$ | \$ | \$ | \$ |
| Trade and other receivables | 93 | (93) | - | - |
| Deferred exploration costs | 5,018 | 4,157 | - | 9,175 |
| Employee benefits | - | - | - | - |
| Tax losses | (5,111) | (4,064) | - | (9,175) |
| | - | - | - | - |

| | Balance 30 June 2009 | Recognised in Income | Recognised in Equity | Balance 30 June 2010 |
|-----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | \$ | \$ | \$ | \$ |
| Trade and other receivables | 1,544 | (1,451) | - | 93 |
| Deferred exploration costs | 229,657 | (224,639) | - | 5,018 |
| Employee benefits | (1,544) | 1,544 | - | - |
| Tax losses | (229,657) | 224,546 | - | (5,111) |
| | - | - | - | - |

| | Consolidated 2011 | Consolidated 2010 |
|--|----------------------|----------------------|
| | \$ | \$ |

(c) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

| | | |
|---------------------------------|---------|-----------|
| Other payables | 5,400 | 5,982 |
| Provision for non-recovery | - | - |
| Provision for employee benefits | 1,381 | 4,233 |
| Capital raising costs | 4,379 | 72,992 |
| | 613,667 | 927,131 |
| Tax losses | 624,827 | 1,010,338 |

The tax losses do not expire under current legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

5 Directors and key management personnel compensation

(a) Directors and key management personnel

The following persons were Directors and key management personnel of Cougar Metals NL during the financial year:

| | |
|---------------|--|
| Randal Swick | Managing Director and Executive Chairman |
| Jeffrey Moore | Non-Executive Director |
| Paul Hardie | Non-Executive Director |
| Chris Bossong | Company Secretary |
| Jayme Leite | Exploration Manager |

(b) Remuneration

| 2011 | Short Term Employee Benefits | | | Post Employment Benefits | Share Based Payments | | Total | % Options as Compensation |
|---|------------------------------|--------|-------------------|------------------------------|----------------------|---------|-------|---------------------------|
| | Salary, Fees and Commissions | Other | Non-Cash Benefits | Superannuation Contributions | Options | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | | |
| Randal Swick | 192,500 | 30,909 | - | - | 53,400 | 276,809 | 19% | |
| Jeffrey Moore | 36,000 | - | - | 3,240 | 53,400 | 92,640 | 58% | |
| Paul Hardie | 36,000 | - | - | - | 53,400 | 89,400 | 60% | |
| Chris Bossong | 98,132 | 1,491 | - | - | - | 99,623 | 0% | |
| Jayme Leite | 117,332 | - | - | - | - | 117,332 | 0% | |
| | 479,964 | 32,400 | - | 3,240 | 160,200 | 675,804 | 30% | |
| 2010 | | | | | | | | |
| Randal Swick | 157,084 | 9,335 | - | - | - | 166,419 | 0% | |
| Ian Herbison (resigned 18 Feb 2010) | 88,375 | 410 | - | - | - | 88,785 | 0% | |
| Jeffrey Moore | 35,916 | - | - | 3,510 | - | 39,426 | 0% | |
| Paul Hardie | 13,286 | - | - | - | - | 13,286 | 0% | |
| Melissa Fry (resigned 30 Nov 2009) | 23,250 | - | - | - | - | 23,250 | 0% | |
| Chris Bossong | 45,307 | 354 | - | - | - | 45,661 | 0% | |
| Jayme Leite | 122,357 | - | - | - | - | 122,357 | 0% | |
| | 485,575 | 10,099 | - | 3,510 | - | 499,184 | 0% | |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

5 Directors and key management personnel compensation (Continued)

(c) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration:

On 8 September 2010 the company granted 9,000,000 options exercisable at \$0.035 on or before 9 September 2013 to Directors, as approved at the AGM.

(ii) Shareholdings

The numbers of shares in the company held during the financial year by each Director of Cougar Metals NL, including their personally related parties, are set out below:

| 2011 | Balance at beginning of year | Granted during year as compensation | Balance on resignation | Other changes during year | Balance at end of year |
|---------------|------------------------------|-------------------------------------|------------------------|---------------------------|------------------------|
| Randal Swick | 33,765,060 | - | - | - | 33,765,060 |
| Jeffrey Moore | 1,500,000 | - | - | 500,000 | 2,000,000 |
| Paul Hardie | 25,000 | - | - | - | 25,000 |
| Chris Bossong | - | - | - | - | - |
| | 42,790,060 | - | - | 500,000 | 43,290,060 |

| 2010 | Balance at beginning of year | Granted during year as compensation | Balance on resignation | Other changes during year | Balance at end of year |
|---------------|------------------------------|-------------------------------------|------------------------|---------------------------|------------------------|
| Randal Swick | 33,765,060 | - | - | - | 33,765,060 |
| Ian Herbison | 2,763,159 | - | (2,763,159) | - | - |
| Jeffrey Moore | 1,500,000 | - | - | - | 1,500,000 |
| Paul Hardie | 25,000 | - | - | - | 25,000 |
| Melissa Fry | - | - | - | - | - |
| Chris Bossong | - | - | - | - | - |
| | 45,553,219 | - | (2,763,159) | - | 42,790,060 |

(d) Remuneration practices

The company's policy for determining the nature and amount of emoluments of board members and senior executives of the company is as follows:

The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service, particular experience of the individual concerned and overall performance of the Company. The contracts for service between the Company and specified directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future. Upon retirement specified directors and executives are paid employee benefit entitlements accrued to date of retirement. Specified executive directors and specified executives are paid a percentage between 5% and 10% of their salary in the event of any redundancy. Any options not exercised before or on the date of termination lapse.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

5 Directors and key management personnel compensation (Continued)

(e) Transactions with the Company

A number of directors of the Company, or their director-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. The terms and conditions of the transactions with directors and their director related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The aggregate amounts paid during the year relating to directors and their director-related entities were as follows:

| Related entities | Transaction | 2011 \$ |
|--------------------------------|----------------------------------|------------|
| Vedrell Pty Ltd – Randal Swick | Provision of consulting services | 192,500 |
| Hardies Lawyers – Paul Hardie | Provision of consulting services | 36,000 |

| Related entities | Transaction | 2010 \$ |
|--|----------------------------------|------------|
| Vedrell Pty Ltd – Randal Swick | Provision of consulting services | 166,419 |
| Rosmar Holdings Pty Ltd – Ian Herbison | Provision of consulting services | 88,375 |
| Hardies Lawyers – Paul Hardie | Provision of consulting services | 13,286 |
| MBF Consulting Pty Ltd – Melissa Fry | Provision of consulting services | 23,250 |
| SMS Assets | Purchase of assets | 266,253 |
| SMS Operations | Provision of services | 22,072 |

6 Auditor's remuneration

| | Consolidated 2011 \$ | Consolidated 2010 \$ |
|--|----------------------------|----------------------------|
| Remuneration of the auditor of the parent entity for: | | |
| Auditing or reviewing the annual report – PKF | - | 17,703 |
| Auditing or reviewing the annual report – Deloitte Touche Tohmatsu | 30,472 | 14,000 |
| Other services – PKF | - | 9,468 |
| | 30,472 | 41,171 |

7 Earnings per share

Reconciliation of earnings to profit / (loss)

| | | |
|---------------------------|------------------|-------------|
| Profit / (loss) after tax | 3,141,799 | (3,858,586) |
|---------------------------|------------------|-------------|

| | No. 2011 | No. 2010 |
|--|--------------------|-------------|
| Weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted EPS | 406,223,576 | 257,372,891 |

The following potential ordinary shares are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:

| | | |
|---|------------------|---|
| \$0.036 options exercisable on or before 9 September 2013 | 9,000,000 | - |
|---|------------------|---|

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

8 Cash and cash equivalents

| | Consolidated 2011 \$ | Consolidated 2010 \$ |
|--------------------------|----------------------------|----------------------------|
| Cash at bank and in hand | 128,363 | 2,824 |
| Short-term bank deposits | 80,540 | 230,717 |
| | <u>208,903</u> | <u>233,541</u> |

(a) Reconciliation of cash flow from operations with profit / (loss) after income tax

| | | |
|--|------------------|----------------|
| Profit / (loss) after income tax | 3,141,799 | (3,858,586) |
| Non-cash flows in profit | | |
| Depreciation | 1,339,868 | 797,295 |
| Exploration expenditure written off | (408) | 1,493,943 |
| Share based payments | 160,200 | - |
| Changes in assets and liabilities | | |
| (Increase)/decrease in trade and other receivables | (1,932,327) | 78,453 |
| (Increase)/decrease in inventories | (697,824) | - |
| (Increase)/decrease in other assets | 75,168 | (106,551) |
| Increase/(decrease) in trade payables and accruals | 2,296,575 | 812,362 |
| Increase/(decrease) in deferred revenue | (1,177,346) | 1,177,346 |
| Net cash used in / generated by operating activities | <u>3,205,705</u> | <u>394,262</u> |

(b) Non-cash financing and investing activities

There were no non-cash financing and investing activities that occurred during the year.

9 Trade and other receivables

Current

| | | |
|----------------|------------------|----------------|
| Accrued income | 2,389,039 | 456,712 |
| | <u>2,389,039</u> | <u>456,712</u> |

- (a) Trade debtors are non-interest bearing and generally on 30 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.
- (b) Due to the short term nature of these receivables their carrying value is assumed to approximate their fair value. None of the receivables are past due.
- (c) Effective interest rates risk and credit risk – information concerning the effective interest rate and credit risk of both current and non-current receivables is detailed in note 26.

10 Inventory

| | | |
|-----------------|----------------|----------|
| Gold in circuit | 697,824 | - |
| | <u>697,824</u> | <u>-</u> |

11 Other assets

| | | |
|-------------|---------------|----------------|
| Prepayments | 18,762 | 2,527 |
| Other | 24,729 | 116,132 |
| | <u>43,491</u> | <u>118,659</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

12 Controlled entities

| Entity | Country of Incorporation | Percentage Ownership (%)* | |
|--------------------------|--------------------------|---------------------------|------|
| | | 2011 | 2010 |
| Cougar Brasilia Pty Ltd | Australia | 100 | 100 |
| Cougar Mineracao Ltda | Brazil | 100 | 100 |
| Geologica Sondagens Ltda | Brazil | 100 | 100 |
| Palinir Sociedad Anonima | Uruguay | 100 | 100 |

* Percentage of voting power is in proportion to ownership

13 Property, plant and equipment

| | Consolidated 2011 \$ | Consolidated 2010 \$ |
|-------------------------------|----------------------------|----------------------------|
| Property: | | |
| At cost | 141,278 | 141,278 |
| Accumulated depreciation | (13,400) | (10,952) |
| | <u>127,878</u> | <u>130,326</u> |
| Furniture and equipment: | | |
| At cost | 170,913 | 166,117 |
| Accumulated depreciation | (159,618) | (144,132) |
| | <u>11,295</u> | <u>21,985</u> |
| Drilling plant and equipment: | | |
| At cost | 6,110,878 | 3,935,358 |
| Accumulated depreciation | (2,414,359) | (1,217,368) |
| | <u>3,696,519</u> | <u>2,717,990</u> |
| Leasehold improvements: | | |
| At cost | 2,454 | 2,454 |
| Accumulated depreciation | (1,389) | (898) |
| | <u>1,065</u> | <u>1,556</u> |
| Other plant and equipment: | | |
| At cost | 444,261 | 282,607 |
| Accumulated depreciation | (177,015) | (90,693) |
| | <u>267,246</u> | <u>191,914</u> |
| Motor vehicles: | | |
| At cost | 613,772 | 613,772 |
| Accumulated depreciation | (535,751) | (497,620) |
| | <u>78,021</u> | <u>116,152</u> |
| | <u>4,182,024</u> | <u>3,179,923</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

13 Property, plant and equipment (Continued)

(a) Movement in carrying amounts

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year.

| Consolidated | Property | Furniture and equipment | Drilling plant and equipment | Leasehold improvements | Other plant and equipment | Motor vehicles | Total |
|------------------------------------|----------------|-------------------------|------------------------------|------------------------|---------------------------|----------------|------------------|
| 2011 | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at the beginning of year | 130,326 | 21,985 | 2,717,990 | 1,556 | 191,914 | 116,152 | 3,179,923 |
| Additions | - | 4,796 | 2,175,519 | - | 161,654 | - | 2,341,969 |
| Disposals | - | - | - | - | - | - | - |
| Depreciation | (2,448) | (15,486) | (1,196,990) | (491) | (86,322) | (38,131) | (1,339,868) |
| Carrying amount at the end of year | 127,878 | 11,295 | 3,696,519 | 1,065 | 267,246 | 78,021 | 4,182,024 |

| Consolidated | Property | Furniture and equipment | Drilling plant and equipment | Leasehold improvements | Other plant and equipment | Motor vehicles | Total |
|------------------------------------|----------------|-------------------------|------------------------------|------------------------|---------------------------|----------------|------------------|
| 2010 | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at the beginning of year | 134,611 | 42,560 | 1,909,364 | 2,045 | 82,464 | 292,146 | 2,463,190 |
| Additions | - | 4,760 | 1,345,484 | - | 172,679 | - | 1,522,923 |
| Disposals | - | - | - | - | - | - | - |
| Depreciation | (4,285) | (25,335) | (536,858) | (489) | (63,229) | (175,994) | (806,190) |
| Carrying amount at the end of year | 130,326 | 21,985 | 2,717,990 | 1,556 | 191,914 | 116,152 | 3,179,923 |

Fixed assets have been allocated for impairment testing purposes to the following cash-generating units:

- Drilling equipment
- Other plant and equipment

A discount rate of 9% and a profit growth rate of 10% have been used in the impairment testing.

14 Deferred exploration expenditure

| | Consolidated 2011 \$ | Consolidated 2010 \$ |
|----------------------------------|----------------------------|----------------------------|
| Expenditure brought forward | 5,358,797 | 5,407,218 |
| Expenditure incurred during year | 752,958 | 1,445,522 |
| Expenditure impaired during year | - | (1,493,943) |
| Expenditure carried forward | 6,111,755 | 5,358,797 |

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the mining areas. Amortisation of the costs carried forward for the development phase is not being recognised pending the commencement of production. The Board assessed the Company's projects during the prior year and determined that capitalised exploration in respect to its Australian tenements were impaired.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

15 Trade and other payables

| | Consolidated 2011 \$ | Consolidated 2010 \$ |
|---------------------|----------------------------|----------------------------|
| Current | | |
| Trade payables | 720,082 | 688,769 |
| Audit accrual | 14,000 | 17,000 |
| Other accruals | 740,988 | 159,897 |
| Payroll liabilities | 12,130 | 10,139 |
| | <u>1,487,200</u> | <u>875,805</u> |

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value. The Payables disclosed are unsecured.

16 Provisions

| | | |
|-----------------------|----------------|---------------|
| Employee entitlements | 4,603 | 14,110 |
| Income tax | 915,419 | - |
| | <u>920,022</u> | <u>14,110</u> |

17 Interest bearing liabilities

| | | |
|-----------------------------------|----------------|---------------|
| Current | | |
| Hire purchase liabilities | - | 64,696 |
| Loans from non-related entities | 52,108 | - |
| Loan from director related entity | 372,152 | - |
| | <u>424,260</u> | <u>64,696</u> |

Terms and conditions relating to the above financial instruments:

- Hire purchase liabilities generally have a lease term of 18 months with the financier having an interest in the asset until the final payment is made. The average interest rate is 7%. Financiers secure their interest by registering a charge over the leased assets.
- Interest rate risk exposure: Details of the Group exposure to interest rate changes on interest bearing liabilities are set out in note 26.
- Fair value disclosures: Details of the fair value of interest bearing liabilities for the Group are set out in note 26.

Assets pledged as security

Hire purchase liabilities are secured by the asset for which the agreement relates.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

17 Interest bearing liabilities (Continued)

Loan from director related entity:

- This loan was restructured on 16 March 2011 and is interest bearing at a rate equal to the standard variable interest rate applicable to secured overdraft facilities of \$500,000 or less and is repayable at the rate of \$50,000 per month until fully repaid.

Terms and conditions relating to the above financial instruments:

- Details of the Group exposure to interest rate changes on interest bearing liabilities are set out in note 26.

Assets pledged as security

The loan from director related party is secured by a fixed and floating charge over the company's assets. Hire purchase liabilities are secured by the asset for which the agreement relates.

Bank guarantees

| | |
|----------------------|----------|
| Total facilitates | \$30,000 |
| Used at Balance Date | \$30,000 |

The above guarantee relates to bonds placed on the mining tenements held and undertaken by the Bank on behalf of the Company.

18 Deferred revenue

| | Consolidated 2011 \$ | Consolidated 2010 \$ |
|------------------|----------------------------|----------------------------|
| Deferred revenue | - | 1,177,346 |
| | - | 1,177,346 |

19 Issued capital

| | | |
|---|------------|------------|
| Ordinary fully paid ordinary shares (a) | 20,416,696 | 20,416,696 |
| Contributing shares partly paid to \$0.01 | 3,426 | 3,426 |
| | 20,420,122 | 20,420,122 |

| | 2011 \$ | 2011 No. | 2010 \$ | 2010 No. |
|------------------------------|------------|-------------|------------|-------------|
| (a) Ordinary shares | | | | |
| Balance at beginning of year | 20,416,696 | 406,223,576 | 15,122,203 | 150,339,341 |
| Shares issued during year | | | | |
| 25 November 2009 (ii) | - | - | 631,425 | 22,550,901 |
| 4 February 2010 (iii) | - | - | 2,050,000 | 97,619,045 |
| 4 February 2010 (iv) | - | - | 2,850,000 | 135,714,289 |
| Share issue costs | - | - | (236,932) | - |
| Balance at end of year | 20,416,696 | 406,223,576 | 20,416,696 | 406,223,576 |

Fully paid ordinary shares carry one vote per share and carry a right to dividends.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

19 Issued capital (Continued)

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to the share capital from 1 July 1999 and therefore the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

(b) Share options

| 2011 | | | | | | | |
|------------------|----------------|------------------------------|--------------------|--------------------|---------------------|-----------------------|------------------------|
| Date of expiry | Exercise price | Balance at beginning of year | Issued during year | Lapsed during year | Expired during year | Exercised during year | Balance at end of year |
| 8 September 2013 | \$0.035 | - | 9,000,000 | - | - | - | 9,000,000 |
| | | - | 9,000,000 | - | - | - | 9,000,000 |

| 2010 | | | | | | | |
|------------------|----------------|------------------------------|--------------------|--------------------|---------------------|-----------------------|------------------------|
| Date of expiry | Exercise price | Balance at beginning of year | Issued during year | Lapsed during year | Expired during year | Exercised during year | Balance at end of year |
| 31 December 2010 | \$0.30 | 1,000,000 | - | (1,000,000) | - | - | - |
| | | 1,000,000 | - | (1,000,000) | - | - | - |

The above options were issued to an employee of the Group pursuant to the Company's Employee Share Option Plan, details of which are included in note 20.

20 Reserves

| | Consolidated 2011 \$ | Consolidated 2010 \$ |
|--------------------------|----------------------------|----------------------------|
| Share based payments (a) | 389,465 | 229,265 |
| Foreign exchange | 89,774 | (194,106) |
| | <u>479,239</u> | <u>35,159</u> |

(a) Share based payments reserve

Share based payments recognised in Reserves of the Company consists of an Employee Share Option Plan (ESOP) and performance rights granted to certain Directors, employees and consultants of the Company. The Black and Scholes Option Valuation model was used in the calculation. The following tables give the assumptions made in determining the fair value of the options and the rights issued.

| | 2011 | 2010 |
|----------------------------|---------|------|
| (b) Employee share options | | |
| Dividend yield | 0% | - |
| Expected volatility | 130% | - |
| Risk-free interest rate | 4.50% | - |
| Expected life of option | 3 years | - |
| Option exercise price | \$0.035 | - |
| Share price at grant date | \$0.025 | - |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

21 Contingent assets and contingent liabilities

The Directors are not aware of any contingent liabilities or contingent assets as at 30 June 2011.

22 Capital and leasing commitments

| | Consolidated 2011 \$ | Consolidated 2010 \$ |
|------------------------|----------------------------|----------------------------|
| Finance leases | | |
| <1 year | - | 41,674 |
| 1 – 5 years | - | - |
| >5 years | - | - |
| Minimum lease payments | - | 41,674 |
| Future finance charges | - | (669) |
| Lease liability | - | 41,005 |
| Comprising: | | |
| Current liability | - | 41,005 |
| Non-Current liability | - | - |
| | - | 41,005 |

Operating lease commitments

The Group has operating lease commitments with respect to its drilling and exploration businesses of \$441,292 (2010: \$nil).

Exploration expenditure

In addition, the Group has minimum expenditure obligations relating to its Australian tenements of \$53,000 (2010: \$53,000) and obligations to meet in Brazil in respect of annual rents on granted tenements of \$189,596 (2010: \$182,853).

23 Segment reporting

The Group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The entity's primary segments are three businesses, being drilling operations, mineral exploration and resource development and gold operations.

Drilling operations consists of providing rigs, equipment, consumables and services for drilling holes for the purpose of extraction and presentation of rock and soil samples on a contract basis for mining and exploration companies in Brazil and Uruguay. This business depends upon the supply and utilisation of drilling rigs, the skills and training of the drilling services personnel and the ability to negotiate the contracts under which these services are provided to customers.

Mineral exploration and resource development involves the geological pursuit of identifying mineral resource systems for the purposes of extraction and or sale.

During the year ended 30 June 2011 the consolidated entity operated in the following Geographic Segments: Australia, Brazil and Uruguay. (2010: Australia, Brazil and Uruguay).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

23 Segment reporting (Continued)

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions

An internally determined transfer price is set for all inter-entity sales. This price is re-set quarterly and is based on what would be realised in the event the sale was made to an external party at arm's-length. All such transactions are eliminated on consolidation for the Groups financial statements.

Corporate charges are allocated to reporting segments based on the segments' overall proportion of revenue generation within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated items

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- impairment of assets and other non-recurring items of revenue or expense

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

23 Segment reporting (Continued)

(a) Operating segments

| | Australia Exploration & Evaluation | Brazil Exploration & Evaluation | Brazil Drilling Operations | Uruguay Drilling Operations | Brazil Gold Operations | Total Operations |
|----------------------------------|---|--|----------------------------------|-----------------------------------|---------------------------|---------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| 30 June 2011 | | | | | | |
| Revenue | | | | | | |
| Sales to external customers | 183,957 | - | 6,475,382 | 12,199,685 | 2,944,912 | 21,803,936 |
| Finance revenue | 2,228 | - | - | - | - | 2,228 |
| Other | 2,258 | - | - | - | - | 2,258 |
| Segment revenue | 188,443 | - | 6,475,382 | 12,199,685 | 2,944,912 | 21,808,422 |
| Segment profit/(loss) before tax | (836,322) | 564 | 59,213 | 4,036,615 | 785,883 | 4,045,953 |
| Assets and liabilities | | | | | | |
| Segment assets | 344,922 | 6,480,459 | 2,869,866 | 2,803,736 | 1,134,053 | 13,633,036 |
| Segment liabilities | (750,683) | (21,277) | (173,552) | (1,641,944) | (244,026) | (2,831,482) |
| Segment net assets | (405,761) | 6,459,182 | 2,696,314 | 1,161,792 | 890,027 | 10,801,554 |
| Addition of non-current assets | 18,652 | 712,859 | 817,432 | 1,357,549 | 188,436 | 3,094,928 |
| Depreciation | (14,389) | (47,326) | (738,846) | (364,067) | (175,240) | (1,339,868) |

| | Australia Exploration & Evaluation | Brazil Exploration & Evaluation | Brazil Drilling Operations | Uruguay Drilling Operations | Brazil Gold Operations | Total Operations |
|----------------------------------|---|--|----------------------------------|-----------------------------------|---------------------------|---------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| 30 June 2010 | | | | | | |
| Revenue | | | | | | |
| Sales to external customers | - | - | 5,501,312 | - | - | 5,501,312 |
| Finance revenue | 19,192 | - | - | - | - | 19,192 |
| Other | 29,704 | - | - | 98,837 | - | 128,541 |
| Segment revenue | 48,896 | - | 5,501,312 | 98,837 | - | 5,649,045 |
| Segment profit/(loss) before tax | (2,139,032) | (677,679) | (245,738) | (796,137) | - | (3,858,586) |
| Assets and liabilities | | | | | | |
| Segment assets | 495,729 | 7,871,885 | 543,251 | 436,767 | - | 9,347,632 |
| Segment liabilities | (730,019) | (81,584) | (102,054) | (1,218,300) | - | (2,131,957) |
| Segment net assets | (234,290) | 7,790,301 | 441,197 | (781,533) | - | 7,215,675 |
| Addition of non-current assets | 9,950 | 747,823 | 302,517 | 462,633 | - | 1,522,923 |
| Depreciation | (17,266) | (627,231) | (69,417) | (92,276) | - | (806,190) |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

23 Segment reporting (Continued)

Information about major customers

Included in revenues arising from gold and drilling sales of \$21,803,936 (2010: \$5,501,312) are revenues of approximately \$12.8m which arose from drilling services to the Group's largest customer. No other single customer contributed 10% or more to the Group's revenue for both 2011 and 2010.

24 Events after balance sheet date

No matter or circumstances have arisen since the end of the reporting date and the date of this report which significantly affects or may significantly affect the results of the operations of the Company except for the following:

- On 12 July 2011, a total of 15,000,000 options were issued to senior executive Michael Fry (in accordance with the terms of his employment contract) pursuant to the Company's Employee Share Option Plan as follows:
 - 5,000,000 unlisted options exercisable at 4.1 cents on or before 4 July 2014;
 - 5,000,000 unlisted options exercisable at 5.1 cents on or before 4 July 2014; and
 - 5,000,000 unlisted options exercisable at 6.5 cents on or before 4 July 2014.

25 Related party transactions

The parent entity advanced loans and provided accounting and administrative assistance to the other entities in the wholly-owned group during the current financial year. With the exception of the accounting and administrative assistance, which was provided free of charge, and interest free loans provided by the parent entity, these transactions were on commercial terms and conditions.

| | Consolidated 2011 \$ | Consolidated 2010 \$ |
|---|----------------------------|----------------------------|
| The following balances were outstanding with related parties at year end: | | |
| Loans from related parties: | 372,151 ⁽ⁱⁱⁱ⁾ | -(ii) |
| Advances from director related party | | |
| Included in creditors: | | |
| Swick Mining Services Limited | - | 288,325 |
| Payable to: | | |
| R Swick | 227,403 | 44,400 |
| P Hardie | 3,300 | - |

- (i) Loans advanced to commonly controlled entities from the parent entity are non-interest bearing and not repayable within the next 12 months.
- (ii) During the prior year the company issued 135,714,289 shares to Rosanne Swick to extinguish the outstanding debt.
- (iii) Loan from director related entity: This loan was restructured on 16 March 2011 and is interest bearing at a rate equal to the standard variable interest rate applicable to secured overdraft facilities of \$500,000 or less and is repayable at the rate of \$50,000 per month until fully repaid.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

25 Related party transactions (Continued)

| Subsidiary | Principal Activity | Place of Incorporation | Percentage Ownership | |
|--------------------------|----------------------------|------------------------|----------------------|-------|
| | | | 2011 | 2010 |
| Cougar Mineracao Ltda | Exploration and evaluation | Brazil | 100 % | 100 % |
| Cougar Brasilia Pty Ltd | Exploration and evaluation | Australia | 100 % | 100 % |
| Geologica Sondagens Ltda | Drilling | Brazil | 100 % | 100 % |
| Palinir Sociedad Anonima | Drilling | Uruguay | 100 % | 100 % |

26 Financial instruments

(a) Financial risk management objectives

The Group's accounting and finance function co-ordinates access to domestic and financial markets, and monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), foreign currency risk, credit risk, liquidity risk and cash flow interest rate risk. The Group seeks to minimise the effects of these risks, where deemed appropriate.

(b) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balances. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents and equity attributable to equity holders of the Parent, comprising issued capital, reserves, other equity and retained earnings (accumulated losses) as disclosed in note 27.

(c) Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates. The Group enters into funding agreements with a variety of financial institutions to manage its exposure to interest rate risk.

(d) Foreign currency risk

As a result of the operating activities in Brazil and Uruguay and the ongoing funding of overseas operations from Australia, the Group's balance sheet can be affected by movements in the Brazilian Real (BRL) / Australian Dollar (AUD) and US Dollar (USD) / Australian Dollar (AUD) exchange rates. The Group seeks to mitigate the effect of its foreign currency exposure by timing its purchase and payment to coincide with highs in the BRL/AUD and USD/AUD exchange rate cycle.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

100% of the Group's sales are denominated in currencies other than the functional currency of the operating entity making the sale, with the majority of costs relating to drilling costs also denominated in the unit's functional currency.

Presently, each operating entity's profits and surplus cashflows are reinvested back into the operating entity to fund and facilitate ongoing growth, thus eliminating the need for measures to mitigate currency exposure.

(e) Interest rate risk management

The Group is not exposed to any significant interest rate risk as entities within the Group are not party to significant borrowing arrangements. The necessity to undertake hedging activities is evaluated regularly to align with interest rate views and defined risk appetite; currently the Management of the Company takes the view that hedging activity is unnecessary. The Parent and the Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

26 Financial instruments (Continued)

(f) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. On-going credit evaluation is performed on the financial condition of accounts receivable.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk.

(g) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Accounting Department and Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

(h) Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been presented based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group may be required to pay. The table includes both interest and principal cash flows.

(i) Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments that are exposed to interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

26 Financial instruments (Continued)

| Consolidated 2011 | Weighted average effective interest rate | Floating interest rate | Fixed interest rate maturing | | | Non- interest bearing | Total |
|-------------------------------|---|------------------------------|------------------------------|-------------|--------------|-----------------------------|-----------|
| | | | < 1 year | 1 – 5 years | > 5 years | | |
| | | | \$ | \$ | \$ | | |
| | % | \$ | \$ | \$ | \$ | \$ | |
| Financial assets: | | | | | | | |
| Cash and cash equivalents | 0.75 % | 128,263 | 80,540 | - | - | 100 | 208,903 |
| Trade and other receivables | 0.00 % | - | - | - | - | 2,389,039 | 2,389,039 |
| Total financial assets | | 128,263 | 80,540 | - | - | 2,389,139 | 2,597,942 |
| Financial liabilities: | | | | | | | |
| Loan – related entity | 9.76 % | - | 372,152 | - | - | - | 372,152 |
| Loan – non-related entity | 0.00 % | 52,108 | - | - | - | - | 52,108 |
| Trade and other payables | 0.00 % | - | - | - | - | 1,534,068 | 1,534,068 |
| Total financial liabilities | | - | 372,152 | - | - | 1,534,068 | 1,958,328 |

| Consolidated 2010 | Weighted average effective interest rate | Floating interest rate | Fixed interest rate maturing | | | Non- interest bearing | Total |
|-------------------------------|---|------------------------------|------------------------------|-------------|--------------|-----------------------------|---------|
| | | | < 1 year | 1 – 5 years | > 5 years | | |
| | | | \$ | \$ | \$ | | |
| | % | \$ | \$ | \$ | \$ | \$ | |
| Financial liabilities: | | | | | | | |
| Hire purchase liabilities | 8.4 % | - | 64,696 | - | - | - | 64,696 |
| Payables | 0.0 % | - | - | - | - | 875,805 | 875,805 |
| Total financial liabilities | | - | 64,696 | - | - | 875,805 | 940,501 |

(j) Sensitivity analysis

The sensitivity table below show the effect on profit and equity after tax if interest rates at the balance date had increased or decreased by 1 % (100 basis points) with all other variables held constant, taking into account all underlying exposures. The 100 basis point deviation has been selected as this is considered reasonable given the current level of both short and long term Australian interest rates. A 100 basis point sensitivity would move interest rates payable from 0.62 % to 1.62 % in an interest rate appreciation environment.

It is considered that no price risk movements exist given that predominantly all purchases are made within the Brazilian market and the largest cost component is labour.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

26 Financial instruments (Continued)

| Consolidated 2011 | Carrying amount (\$'000) | Interest rate risk | | | | Foreign exchange rate risk | | | |
|------------------------------|--------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|----------------------------|---------------------------|---------------------------|---------------------------|
| | | -1% Profit (\$'000) | -1% Equity (\$'000) | +1% Profit (\$'000) | +1% Equity (\$'000) | -1% Profit (\$'000) | -1% Equity (\$'000) | +1% Profit (\$'000) | +1% Equity (\$'000) |
| Financial assets | | | | | | | | | |
| Cash and cash equivalents | 209 | - | - | 4 | 4 | 1 | 1 | (1) | (1) |
| Accounts receivable | 2,389 | - | - | - | - | 13 | 13 | (13) | (13) |
| Financial liabilities | | | | | | | | | |
| Accounts payable | (1,487) | - | - | - | - | 7 | 7 | (6) | (6) |
| Borrowings | (424) | - | - | - | - | - | - | - | - |
| Total increase / (decrease) | 687 | - | - | 4 | 4 | 21 | 21 | (20) | (20) |

| Consolidated 2010 | Carrying amount (\$'000) | Interest rate risk | | | | Foreign exchange rate risk | | | |
|------------------------------|--------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|----------------------------|---------------------------|---------------------------|---------------------------|
| | | -1% Profit (\$'000) | -1% Equity (\$'000) | +1% Profit (\$'000) | +1% Equity (\$'000) | -1% Profit (\$'000) | -1% Equity (\$'000) | +1% Profit (\$'000) | +1% Equity (\$'000) |
| Financial assets | | | | | | | | | |
| Cash and cash equivalents | 234 | (2) | (2) | 2 | 2 | - | - | - | - |
| Accounts receivable | 457 | - | - | - | - | (5) | (5) | 5 | 5 |
| Financial liabilities | | | | | | | | | |
| Accounts payable | (876) | - | - | - | - | 9 | 9 | (9) | (9) |
| Hire purchase liabilities | (65) | 1 | 1 | (1) | (1) | - | - | - | - |
| Deferred revenue | (1,177) | - | - | - | - | 12 | 12 | (12) | (12) |
| Total increase / (decrease) | (1,427) | (1) | (1) | 1 | 1 | 16 | 16 | (16) | (16) |

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

27 Parent entity disclosures

| | Parent Entity 2011 \$ | Parent Entity 2010 \$ |
|---|-----------------------------|-----------------------------|
| (a) Financial position | | |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | 58,294 | 243,779 |
| Trade and other receivables | 202,352 | - |
| Other current assets | 43,491 | 118,659 |
| Total Current Assets | 304,137 | 362,438 |
| Non-Current Assets | | |
| Trade and other receivables | 6,711,815 | 6,461,421 |
| Financial assets | 100 | 100 |
| Property, plant and equipment | 10,203 | 19,796 |
| Exploration and evaluation expenditure | 30,582 | 16,726 |
| Total Non-Current Assets | 6,752,700 | 6,498,043 |
| Total Assets | 7,056,837 | 6,860,481 |
| LIABILITIES | | |
| Current Liabilities | | |
| Trade and other payables | 373,628 | 715,909 |
| Provisions | 4,603 | 14,110 |
| Interest bearing loans and borrowings | 372,152 | - |
| Total Current Liabilities | 750,683 | 730,019 |
| Total Liabilities | 750,683 | 730,019 |
| Net Assets | 6,306,154 | 6,130,462 |
| EQUITY | | |
| Issued capital | 20,420,121 | 20,420,122 |
| Other reserve | 389,466 | 229,265 |
| Accumulated losses | (14,503,433) | (14,518,925) |
| Total Equity | 6,306,154 | 6,130,462 |
| (b) Financial performance | | |
| Net profit / (loss) for the year | 15,492 | (4,861,742) |
| Other comprehensive income for the year | | |
| Exchange differences arising on translation of foreign operations | - | - |
| Total comprehensive result for the year | 15,492 | (4,861,742) |

There were no contingent assets or contingent liabilities existing at year end for the parent entity.

DIRECTORS' DECLARATION

The Directors declare that:

- a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company and the Consolidated Entity;
- c) in the Directors' opinion, the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board as disclosed in Note 1(c); and
- d) the Directors have been given the declarations required by s295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to s295(5) of the Corporations Act 2001.



Randal Swick
Managing Director

Dated this 30th day of September 2011

INDEPENDENT AUDITOR'S REPORT

to the members of Cougar Metals NL

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Woodside Plaza
Level 14
240 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 (0) 8 9365 7000
Fax: +61 (8) 9365 7001
www.deloitte.com.au

Report on the Financial Report

We have audited the accompanying financial report of Cougar Metals NL, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 18 to 54.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(c), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An Audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Cougar Metals NL, would be in the same terms if given to the directors as at the time of this auditor's report.

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited

INDEPENDENT AUDITOR'S REPORT

to the members of Cougar Metals NL

Opinion

In our opinion:

- (a) the financial report of Cougar Metals NL is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1(c).

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1(d) in the financial report which indicates that the ability of the consolidated entity and company to continue as going concerns is dependent upon the ability of the consolidated entity to continue to generate positive cash flows from its drilling businesses and trial mining operation at Ze Vermelho, Brazil. These conditions, along with other matters as set forth in Note 1(d), indicate the existence of a material uncertainty which may cast significant doubt about the ability of the company and the consolidated entity to continue as going concerns and therefore, the company and consolidated entity may be unable to realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 14 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Cougar Metals NL for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.



Deloitte Touche Tohmatsu



Chris Nicoloff
Partner
Chartered Accountants

Perth, 2 October 2011

CORPORATE GOVERNANCE

The board of directors is responsible for the corporate governance of the Company and has adopted a range of corporate governance policies consistent with the "Principles of Good Corporate Governance and Recommendations" released by the ASX Corporate Governance Council in March 2003 and revised in August 2007, to the extent that such recommendations are appropriate to the structure and operations of the Company.

A summary of the major policies is set out below.

Functions and Responsibilities of Board and Management

The role of the board is to develop strategies for the growth of the Company and its assets and monitor and evaluate the implementation of those strategies against set performance objectives. The board is responsible for the corporate governance of the Company and considers a wide range of corporate governance issues on a regular basis, including accountability and control, risk management, ethical conduct, financial stability, performance appraisal and human resource management. Each director has the ability, as agreed to by the board, to seek independent professional advice at the Company's expense on a Company related matter on an as required basis.

The board of directors is structured with the required mix of skills and experience to ensure that the Company's growth strategies can be effectively implemented. The composition of the board is continually monitored to ensure that it has the appropriate mix of skills and experience. The responsibility for the day-to-day operation and administration of the Company is delegated by the board of directors to the Managing Director.

The Company's Management is responsible for implementing the Company's strategy and managing the affairs of the Company on a day-to-day basis. The performance of the Managing Director and Management is measured against objectives and outcomes determined at the commencement of each financial year and against the requirements set out in the job descriptions for the members of Management.

Board Structure

Given the current size and nature of the Company's operations, the board of directors has assumed the responsibilities that would ordinarily be assigned to a nomination committee with respect to the nomination, appointment, retention and removal of directors. When a vacancy or perceived deficiency in skill or experience exists at board level, the directors are responsible for the recruitment and appointment of the most suitable candidate, who shall hold office until the next annual general meeting, where the appointee is required to stand for re-election.

No director shall hold office for a period of more than three years without having to stand for re-election (excluding the Managing Director). All board appointments will be made and maintained subject to the rules of the Company's constitution.

Details of qualifications, experience, responsibilities and tenure of current directors are set out in the directors report. The board is currently comprised of three directors: one executive, being Randal Swick (Managing Director) and two Non-Executive Directors, being Jeffrey Moore and Paul Hardie. Technical Director, Ian Herbison, resigned during the year. Due to the size and nature of the Company's operations, it is currently not practical nor financially viable for the Company to justify that a majority of the Board should be independent directors.

The Board is required to assess the independence of its Non-Executive Directors at least annually. In assessing independence, the Board considers all circumstances relevant to determining whether the Non-Executive Director is free from any interest and any business or other relationship, which could, or reasonably be perceived to, materially interfere with that Director's ability to exercise unfettered and independent judgement on Company issues. At the date of this report, the board includes two Non-Executive Directors. The board has assessed that Jeffrey Moore and Paul Hardie are considered to be independents as they do not have any contractual relationships with the Company, or through a business affiliate which results in greater than 10% revenue of gross assets for either party.

Ethical Decision Making

All directors, executives, management and employees are expected to act with the upmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. The board of directors is committed to the establishment of appropriate ethical standards for the Company.

CORPORATE GOVERNANCE

All directors, executives, management and employees must comply with all relevant laws and regulations. The board is required to be notified as soon as a conflict of interest arises so that an appropriate resolution can be determined.

As a measure to ensure that insider trading does not occur, all directors, executives, management and designated employees must notify the Managing Director in writing prior to being permitted to undertake any transaction that results in a change in their relevant interest in the securities of the Company. The Managing Director will assess the information available to the person wishing to trade in the securities of the Company and the information available to the market, and will then advise of the appropriateness of such a trade.

The Managing Director must advise the board in writing prior to trading in the securities of the Company. The Board will assess the information available to the Managing Director and the information available to the market, and will then advise on the appropriateness of such a trade.

Financial Reporting

Given the current size and nature of the Company's operations, the board of directors is not in a position to justify the establishment of an audit committee. The board has assumed the responsibilities that would ordinarily be assigned to an audit committee. Such matters include reviewing the annual report, financial report and other information to be externally distributed, reviewing external audit reports and the performance of external auditors, monitoring the internal control framework, evaluating Company performance, monitoring legal compliance and maintaining budgeting control and responsible accounting procedure. The external auditor will be requested to attend the annual general meeting of the Company, where shareholders will be able to discuss with the external auditor the conduct of the external audit and the preparation and content of the audit report.

Prior to the consideration of the financial report by the board of directors, the Managing Director and the Financial Controller are required to represent in writing to the board that the Company's financial report:

- Presents a true and fair view, in all material respects, of the Company's financial condition and operational results; and
- Has been prepared in accordance with relevant accounting standards.

The Managing Director and Financial Controller are also required to represent in writing to the board that:

- the above statement made by the Managing Director and Financial Controller pertaining to the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board; and
- the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material aspects.

Such representations do not diminish the ultimate responsibility of the board to ensure the integrity of the Company's financial reporting.

Continuous Disclosure

The Company will adhere to the disclosure requirements of the Corporations Act 2001 and ASX Listing Rules. The board will aim to identify all price sensitive information and ensure that it is disclosed to ASX in a timely and efficient manner. All ASX releases shall be reviewed for accuracy and completeness by a director prior to release to the market.

Shareholder Communications

The Company's website will be updated for all ASX releases, shareholder notifications, media and analyst briefings and other general information useful to investors. The Company has established an email subscription service for distribution of ASX releases to interested stakeholders. Shareholders will be encouraged and given the opportunity to ask questions at general meetings, as well as directly to the Company at any other time during the year.

The Company keeps shareholders and the market regularly informed through annual, half-year and quarterly reports and other required statutory information. The Company discloses material information to the ASX and media as required and regularly provide updates to the ASX on operational matters.

CORPORATE GOVERNANCE

Risk Assessment and Management

The board of directors is responsible for putting in place practices and monitoring procedures designed to identify significant areas of business risk, both internal and external. The effectiveness of these practices and procedures in identifying risk will be reviewed at least annually. All risks identified pertaining to the Company will be incorporated into a risk profile that will be regularly reviewed and updated by the board.

The board is responsible for the effective management of any risks identified. Where considered appropriate, the board will draw upon the expertise of appropriately qualified external consultants to assist in identifying, dealing with or mitigating risk.

Remuneration

The board of directors has established a Remuneration Committee for the purposes of reviewing and making recommendations with respect to remuneration practices of the Company. The board of directors prepared and approved a Remuneration Committee Charter as the basis on which the committee was constituted and is operated. The role of the Remuneration Committee is to provide an independent mechanism for the determination and assessment of the remuneration practices of the Company, including remuneration packages and incentive schemes for executive directors and senior management, and fees payable to Non-Executive directors. The aim of the committee is to ensure that the remuneration practices of the Company are commensurate with industry standards and companies of similar operational and financial position.

The Remuneration Committee has the ability, as agreed to by the board, to seek independent professional advice at the Company's expense on any matter on an as required basis, such as acquiring available information which measures the remuneration levels in the various labour markets in which the Company competes.

The Remuneration Committee should ensure that the board of directors is provided with sufficient information to ensure informed decision making. Formal recommendations of the committee are not binding on the board, however the board is encouraged to comply with such recommendations to ensure that the integrity of the Company's corporate governance procedures and Remuneration Committee is maintained.

No formal Remuneration Committee meetings were held during the year, although informal discussions between members were held. A review of the remuneration for FY10 is yet to be completed.

See Directors' Report for details and discussion of the remuneration of directors and executives.

ASX ADDITIONAL INFORMATION

Holdings as at 28 September 2011

| No. Securities Held | Fully Paid Shares | Listed Options |
|--|-------------------|----------------|
| | No. Holders | No. Holders |
| 1 – 1,000 | 46 | - |
| 1,001 – 5,000 | 54 | - |
| 5,001 – 10,000 | 106 | - |
| 10,001 – 100,000 | 514 | - |
| > 100,001 | 315 | - |
| Total no. holders | 1,035 | - |
| No. holders of less than a marketable parcel | 150 | - |
| Percentage of the 20 largest holders | 64.84 % | - |
| Total on issue | 406,223,576 | - |

Substantial Shareholders as at 28 September 2011

| | No. Shares | % |
|-----------------------------------|-------------|-------|
| Savvy Cap Mgnt Pl <Savvy Fam A/C> | 138,366,224 | 34.06 |
| Swick, Marcia | 79,650,000 | 19.61 |

20 Largest Holders of Securities as at 28 September 2011

| Fully Paid Ordinary Shares | No. Shares | % |
|---|-------------|-------|
| 1) Savvy Cap Mgnt PL <Savvy Fam A/C> | 138,366,224 | 34.06 |
| 2) Swick, Marcia | 47,239,940 | 11.63 |
| 3) Swick, Marcia | 32,410,060 | 7.98 |
| 4) Pisano, Rino Pasquale | 9,800,000 | 2.41 |
| 5) Pisano, Rino Pasquale + D <R Pisano S/F A/C> | 3,850,000 | 0.95 |
| 6) Gordon Hldgs Qld PL | 2,700,000 | 0.66 |
| 7) Williamson, D P + G L <Williamson Fam S/F> | 2,682,112 | 0.66 |
| 8) Fitzgerald, Kim M + K J <Fitzgerald S/F A/C> | 2,656,544 | 0.65 |
| 9) Ramneg PL <Tamark A/C> | 2,633,598 | 0.65 |
| 10) Rowntree PL <Rowntree Family A/C> | 2,573,020 | 0.63 |
| 11) K & T Swick PL <K & T Swick Fam A/C> | 2,533,334 | 0.62 |
| 12) Jones, Stephen Clarke | 2,200,000 | 0.54 |
| 13) Lobban, Jerry David | 2,000,000 | 0.49 |
| 14) Open Server Res PL | 1,850,000 | 0.46 |
| 15) Carautzadis, Anestis | 1,741,618 | 0.43 |
| 16) Duncan, Gregory James | 1,700,000 | 0.42 |
| 17) ACN 139 886 025 PL | 1,692,811 | 0.42 |
| 18) Semerdziev, Ianaki | 1,690,000 | 0.42 |
| 19) Chandra, Madhur Lata | 1,582,000 | 0.39 |
| 20) Howard, Rodney + Pamela | 1,500,000 | 0.37 |
| | 263,401,261 | 64.84 |

ASX ADDITIONAL INFORMATION

Unlisted options as at 28 September 2011

Details of unlisted option holders are as follows:

| Class of unlisted options | No. Options |
|--|-------------|
| Options exercisable at \$0.035 on or before 9 September 2013 | 9,000,000 |
| <i>Holders of more than 20% of this class</i> | |
| Randal Swick | 3,000,000 |
| Jeffrey John Moore | 3,000,000 |
| Paul Andrew Hardie <Hardie Family Fund A/C> | 3,000,000 |
| Options exercisable at \$0.041 on or before 4 July 2014 | 5,000,000 |
| <i>Holders of more than 20% of this class</i> | |
| Michael Fry | 5,000,000 |
| Options exercisable at \$0.051 on or before 4 July 2014 | 5,000,000 |
| <i>Holders of more than 20% of this class</i> | |
| Michael Fry | 5,000,000 |
| Options exercisable at \$0.065 on or before 4 July 2014 | 5,000,000 |
| <i>Holders of more than 20% of this class</i> | |
| Michael Fry | 5,000,000 |

Unlisted equity securities as at 28 September 2011

Details of unlisted equity security holders are as follows:

| Class of unlisted equity securities | No. Contributing Shares |
|---|-------------------------|
| Contributing Shares (Issue price \$0.125, \$0.001 paid) | 3,425,725 |
| <i>Holders of more than 20% of this class</i> | |
| Rosmar Holdings Pty Ltd <Rosmar Super Fund A/C> | 1,400,000 |
| Rowntree Pty Ltd <Rowntree Family A/C> | 800,625 |

Voting rights

The Constitution of the company makes the following provision for voting at general meetings:

On a show of hands, every ordinary shareholder present in person, or by proxy, attorney or representative has one vote.

On a poll, every shareholder present in person, or by proxy, attorney or representative has one vote for any share held by the shareholder.

Restricted securities

There are no restricted securities or securities subject to voluntary escrow.

ASX ADDITIONAL INFORMATION

Mining Tenements

Tenements may be subject to various overlaps, amalgamations and conversions, and native title claims.

Pyke Hill (Western Australia)

| Number | Date of Grant | Area in km ² |
|---------|---------------|-------------------------|
| M39/159 | 30/08/1988 | 5.4 |

Alta Floresta Project (Brazil)

| Number | Date of Grant | Area in ha |
|----------|---------------|------------|
| 8689/05 | 04/08/2005 | 4,044.52 |
| 282/06 | 20/01/2006 | 6,844.66 |
| 289/06 | 20/01/2006 | 906.11 |
| 6148/06 | 19/06/2006 | 10,000.00 |
| 6867/08 | 09/07/2008 | 1,566.27 |
| 6868/08 | 09/07/2008 | 2,932.00 |
| 6869/08 | 09/07/2008 | 3,405.38 |
| 6871/08 | 09/07/2008 | 2,176.35 |
| 7530/05 | 05/02/2009 | 7,530.88 |
| 7609/08 | 29/07/2008 | 121.77 |
| 7614/08 | 29/07/2008 | 218.39 |
| 7607/08 | 29/07/2008 | 31.66 |
| 7610/08 | 29/07/2008 | 49.97 |
| 7613/08 | 29/07/2008 | 49.11 |
| 7601/08 | 29/07/2008 | 1,566.18 |
| 7600/08 | 29/07/2008 | 487.06 |
| 7608/08 | 29/07/2008 | 286.63 |
| 7612/08 | 29/07/2008 | 193.32 |
| 7611/08 | 29/07/2008 | 516.48 |
| 7602/08 | 29/07/2008 | 784.11 |
| 7603/08 | 29/07/2008 | 309.13 |
| 7606/08 | 29/07/2008 | 106.65 |
| 7604/08 | 29/07/2008 | 259.35 |
| 7605/08 | 29/07/2008 | 2,045.90 |
| 12774/08 | 14/10/2008 | 2,164.64 |
| 12779/08 | 14/10/2008 | 1,560.41 |
| 8656/05 | 05/02/2009 | 7,530.88 |
| 8685/05 | 05/02/2009 | 8,941.34 |
| 8686/05 | 05/02/2009 | 9,351.24 |
| 8687/05 | 05/02/2009 | 9,332.07 |
| 8657/05 | 05/02/2009 | 5,693.53 |
| 8688/05 | 05/02/2009 | 8,566.61 |
| 8087/09 | 27/07/2009 | 52.25 |
| 8088/09 | 27/07/2009 | 2,966.56 |
| 8089/09 | 27/07/2009 | 4,708.63 |

ASX ADDITIONAL INFORMATION

| Number | Date of Grant | Area in ha |
|----------|---------------|------------|
| 8090/09 | 27/07/2009 | 170.33 |
| 8091/09 | 27/07/2009 | 415.94 |
| 8092/09 | 27/07/2009 | 172.78 |
| 9802/09 | 26/08/2009 | 9,998.45 |
| 9782/09 | 26/08/2009 | 90.43 |
| 12965/09 | 16/11/2009 | 9,816.50 |
| 12969/09 | 16/11/2009 | 57.18 |
| 12970/09 | 16/11/2009 | 49.25 |
| 12971/09 | 16/11/2009 | 303.60 |
| 12972/09 | 16/11/2009 | 76.82 |
| 12973/09 | 16/11/2009 | 33.68 |
| 12974/09 | 16/11/2009 | 27.02 |
| 12975/09 | 16/11/2009 | 191.42 |
| 12976/09 | 16/11/2009 | 49.99 |
| 12977/09 | 16/11/2009 | 48.86 |
| 12978/09 | 16/11/2009 | 1,073.41 |
| 12979/09 | 16/11/2009 | 49.62 |
| 12980/09 | 16/11/2009 | 521.29 |
| 12981/09 | 16/11/2009 | 49.98 |
| 12982/09 | 16/11/2009 | 184.03 |
| 15954/10 | 09/12/2010 | 345.00 |
| 280/06 | 24/12/2009 | 615.07 |
| 8641/06 | 28/12/2009 | 8,696.03 |
| 1062/10 | 12/02/2010 | 673.30 |
| 1219/10 | 19/02/2010 | 1,434.77 |
| 1912/10 | 12/03/2010 | 306.31 |
| 2647/10 | 24/03/2010 | 3,441.10 |
| 2651/10 | 24/03/2010 | 133.31 |
| 12298/06 | 21/05/2010 | 1,750.00 |



International Mineral Exploration & Drilling

Cougar Metals NL is a Perth based exploration company listed on the Australian Securities Exchange (ASX:CGM).

The Company is focused on exploring the Alta Floresta Gold Project in central west Brazil, where past production is estimated at five million ounces of gold.

Cougar Metals NL also operates a growing mineral drilling businesses in Brazil and Uruguay, providing surface diamond, reverse circulation and RAB drilling services to the Brazilian and Uruguayan mining industries.

In addition, the Company holds the mineral rights to the Pyke Hill JORC compliant Measured and Indicated Resource of 14.7mt @ 0.9 % Ni and 0.06 % Co.



CONTACT US

Suite 33, Level 3, 22 Railway Rd
SUBIACO WA 6008

PO Box 745
SUBIACO WA 6904

p +61 8 9381 1755 **f** +61 8 6102 1788
e admin@cgm.com.au

www.cgm.com.au