



Cougar Energy Limited

ABN 75 060 111 784

Appendix 4D

For the Half-Year Ended
31 December 2010

APPENDIX 4D
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

The following information is given under ASX listing rule 4.2A.3.

1. DETAILS OF THE REPORTING PERIODS COVERED

	Period Covered	From	To
Current reporting period	6 months	01-07-2010	31-12-2010
Corresponding previous reporting period	6 months	01-07-2009	31-12-2009

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET (KEY INFORMATION)

	Half-year Ended		Amount	Percentage	Change
	31-12-2010	31-12-2009	Changed	Change	Up /
	\$	\$	\$	%	Down
2.1 Revenue from ordinary activities	98,024	188,781	(90,757)	-48.08%	Down
2.2 (Loss) from ordinary activities after income tax attributable to the owners of Cougar Energy Ltd	(33,059,486)	(2,095,305)	30,964,181	1478%	Up
2.3 Net (loss) after income tax attributable to the owners of Cougar Energy Ltd	(33,059,486)	(2,095,305)	30,964,181	1478%	Up

	Half-year ended 31-12-2010			Half-year ended 31-12-2009		
	Amount Paid per Share	Franked Amount per Share	Record Date for Determining Entitlements	Amount Paid per Share	Franked Amount per Share	Record Date for Determining Entitlements
	\$	\$		\$	\$	
2.4 Interim dividends paid	-	-	-	-	-	-
Final dividends paid	-	-	-	-	-	-

2.6	Brief explanation of any of the figures in 2.1 to 2.4 above that is necessary to enable the figures to be understood.	The consolidated group's continued focus is on the development of Underground Coal Gasification ("UCG") projects within Australia and certain other parts of the world. During the current half-year the company had to stop its operational activities at Kingaroy and regional office in Brisbane. This is in contrast to the previous corresponding period where there was a build up of staff and development of the Kingaroy facility. The results have been impacted by an impairment charge to write down the value of the Kingaroy assets. The Board is of the opinion that the Kingaroy assets have a higher strategic value than the written down value.
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3. NET TANGIBLE ASSETS PER SHARE

	As at 31-12-2010	As at 31-12-2009
	Cents	Cents
3.0 Net tangible assets per ordinary share	0.51	3.90

4. CHANGE IN CONTROL OVER GROUP ENTITIES

4.0	Details of entities over which control has been gained or lost during the half-year ended 31 December 2010.	There has been no change in the control over group entities during the half-year ended 31 December 2010.
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FOR THE HALF YEAR ENDED 31 DECEMBER 2010

5. DIVIDENDS AND PAYMENTS

5.0	Details of individual and total dividends or distributions and dividend or distribution payments.	None.
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6. DIVIDEND REINVESTMENT PLANS

6.0	Details of any dividend or distribution reinvestment plans in operation.	None.
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7. ASSOCIATES AND JOINT VENTURE ENTITIES

7.0	Details of associates and joint venture entities ("A+JVE").	Half-year ended 31-12-2010	Half-year ended 31-12-2009
1	Name of associate or joint venture entity	Pakistan General Partnership *	Pakistan General Partnership *
	Type of venture	Mutual Termination	General Partnership
	Name of the group's investee entity		Cougar Energy (UK) Limited
	Reporting entity's ownership interest in the venture		33.33%
	Ventures contribution to the net loss after income tax attributable to the owners of Cougar Energy Ltd	-	-
2	Name of associate or joint venture entity	Cougar Direct Invest China Ltd	Cougar Direct Invest China Ltd
	Type of venture	Expired	Joint Venture
	Name of the group's investee entity		Cougar Energy Limited
	Reporting entity's ownership interest in the venture		60%
	Ventures contribution to the net loss after income tax attributable to the owners of Cougar Energy Ltd	-	-
3	Name of associate or joint venture entity	Queensland Methane JV	Queensland Methane JV
	Type of venture	Joint Venture	Joint Venture
	Name of the group's investee entity	Cougar Energy Limited	Cougar Energy Limited
	Reporting entity's ownership interest in the venture	50%	50%
	Ventures contribution to the net loss after income tax attributable to the owners of Cougar Energy Ltd	-	-
4	Name of associate or joint venture entity	Cougar Energy/Eneabba Gas JV	
	Type of venture	Joint Venture	
	Name of the group's investee entity	Cougar Energy Limited	
	Reporting entity's ownership interest in the venture	50%	
	Ventures contribution to the net loss after income tax attributable to the owners of Cougar Energy Ltd		
	Total share of net losses after income tax from ventures attributable to the owners of Cougar Energy Ltd	-	-

* = Unofficial title .

8. ACCOUNTING STANDARDS USED BY FOREIGN ENTITIES

8.0	Details of which set of accounting standards have been used by foreign entities in the compilation of the half-year financial statements.	The financial statements for the half-year ended 31 December 2010 for Cougar Energy (UK) Ltd and its 100% controlled subsidiary, Cougar Energy Pakistan (Private) Ltd, which were used as the basis for preparing the group's consolidated financial statements, were prepared using the Australian equivalents of International Financial Reporting Standards ("AIFRS") for consistency with those standards used by the rest of the entities within the consolidated group.
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COUGAR ENERGY LIMITED

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FOR THE HALF YEAR ENDED 31 DECEMBER 2010

9. AUDIT DISPUTE OR QUALIFICATION

9.0 Details for all entities of any audit dispute or qualification affecting the half-year financial statements.	None. A copy of the independent auditor's review report is included with the attached financial statements for the half-year ended 31 December 2010.
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COUGAR ENERGY LIMITED

ACN 060 111 784

**APPENDIX 4D
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

COMPLIANCE STATEMENT

1. The consolidated financial report for the half-year ended 31 December 2010 is provided with this Appendix 4D information.
2. The consolidated financial report has been prepared in accordance with Australian Accounting Standards.
3. The consolidated financial report and information provided in the Appendix 4D uses the same accounting policies as those applied at 30 June 2010.
4. The Appendix 4D information gives a true and fair view of the matters disclosed in the half-year financial report.
5. The Appendix 4D information is based upon the consolidated half-year financial report, which has been subject to independent audit review.



Dr Len Walker

Managing Director

Melbourne,
25 February 2011



Cougar Energy Limited

ABN 75 060 111 784

Interim Financial Report

For the Half-Year Ended
31 December 2010

COUGAR ENERGY LIMITED

CORPORATE DIRECTORY

Directors

Mr Malcolm McAully	Chairman of the Board/Audit Committee Chairman*
Dr Michael Dalling**	Audit Committee Chairman
Dr Leonard Walker	Managing Director
Ms Sarah Christensen***	Non-Executive Director

Share Registry

Computershare Investor Services Pty Ltd
452 Johnston Street,
Abbotsford, Victoria, 3067
Australia

Secretaries

Mr Rodney Watson#	Telephone	+(61 3) 9415-5000
Ms Sarah Christensen##	Facsimile	+(61 3) 9473-2500

Registered Office

Suite 1002, Level 10,
530 Little Collins Street,
Melbourne, Victoria, 3000
Australia

Auditors

PKF Chartered Accountants
Level 14, 140 William Street,
Melbourne, Victoria, 3000
Australia

Telephone	+(61 3) 9909-7200
Facsimile	+(61 3) 9909-7217
Website	www.cougarenergy.com.au

Bankers

National Australia Bank Limited
330 Collins Street,
Melbourne, Victoria, 3000
Australia

Principal Victorian Office

Same as the registered office

Solicitors

Holman Fenwick Willan
Level 36, 600 Bourke Street,
Melbourne, Victoria, 3000
Australia

Stock Exchange Home Branch

Australian Securities Exchange Limited (ASX)
Rialto Tower, 525 Collins Street,
Melbourne, Victoria, 3000
Australia

ASX Securities Codes

Fully paid ordinary shares	CXY
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* Mr McAully assumed the role of Audit Committee Chairman following the passing of Dr Michael Dalling

** Dr Michael Dalling passed away on 8 September 2010

*** Appointed 22 September 2010

Resigned 3 September 2010

Appointed 3 September 2010

COUGAR ENERGY LIMITED

ACN 060 111 784

DIRECTORS' REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2010

The Directors of Cougar Energy Limited submit their report for the half-year ended 31 December 2010.

DIRECTORS

The names and particulars of the Directors of Cougar Energy Limited in office at any time during or since the end of the period:

Name and qualifications	Title	Capacity
Mr Malcolm McAully MBA, GAICD	Chairman of the Board of Directors, Chairman of the Audit Committee (from 8 September 2010)	Non-Executive Director
Dr Michael Dalling AM M.Agr.Sci, PhD	Chairman of the Audit Committee (until 8 September 2010)	Non-Executive Director (until 8 th September 2010)
Ms Sarah Christensen B.Ec, LLB, LLM, MBA, MAICD	Company Secretary (from 3 September 2010) and member of the Audit Committee (from 22 September 2010)	Non-Executive Director (from 22 September 2010)
Dr Leonard Walker BE, MEngSci, PhD (Cantab), MBA, FAusIMM, MIEAust, FAIE	Managing Director	Executive Director

REVIEW OF OPERATIONS

The half year has been one of disappointment especially after the excitement of construction and commissioning of the Kingaroy pilot plant which was completed in the year ended 30 June 2010. Ignition on site took place, and the gasification of coal commenced shortly thereafter. A subsequent failure of well casing in one of the two production wells (P4) being used in the process led to the suspension of the gasification process. The cause of the failure was identified and re-design work was undertaken to ensure a failure of this nature would not recur.

After it was determined that the two original production wells used for the gasification process could no longer be used for this purpose, work commenced to install two new production wells (P5 and P6). It was the Company's intention to re-commence gasification in late July 2010 at Kingaroy. However the ability to do this was halted by the Queensland Government with an Environmental Protection Order which was formally served on the Company on 17 July 2010. On 28 January, 2011 a Notice of Proposed Action was issued.

On 28 January 2011 the Queensland Government served a Notice of Proposed Action on the Company in respect of the Kingaroy site. The Notice proposes, inter alia, to restrict the Company's activities at Kingaroy under its Mineral Development Licence 385 to "decommissioning, rehabilitation, care and maintenance".

Presently the Kingaroy project is not operating, as a result of the Environmental Protection Order. The outcome of the Government's consideration of this submission is not known at this time. The Company is lodging a submission contesting the Notice of Proposed Action. As a result of this Notice (and subsequent public ministerial statements), the Board has determined that it is obliged to review the carrying value of the assets at Kingaroy. External expert advice was also engaged to assist with this review.

The Board has provided for a write down of the Kingaroy assets which is shown in the Financial Report. This was calculated on the basis of the requirements of Accounting Standard AASB 136 *Impairment of Assets* given that the assets cannot presently be permitted to operate until the outcome of the Notice of Proposed Action is known.

The Board is of the opinion that the Kingaroy assets have a higher strategic value than the written down value. For example, the pilot plant has been designed for easy transport to another site and re-commissioned in relatively quick time. The Company is presently considering suitable sites.

Should the Company be successful in reversing the proposed action by the Queensland Government, or alternatively re-commission the assets, the Board will assess which amounts will be written back. A detailed summary of events is included below under the heading of significant events.

DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

REVIEW OF OPERATIONS (continued)

SIGNIFICANT EVENTS

The following list of significant developments occurred during the half-year ended 31 December 2010:

- 6 and 14 July The Company completed a placement of new fully paid ordinary shares to several institutional and sophisticated investors. A total of 17,775,408 new shares were issued at \$0.072 (7.2 cents) per share raising \$1,279,829.38 (before transaction costs).
- 15 and 17 July The Queensland Government's Department of Environment and Resource Management (DERM) advised in a media release issued on 15 July 2010 that the Company would be required to keep the Kingaroy pilot plant closed until the Queensland Government is assured that groundwater resources at Kingaroy are protected.
- On 17 July 2010, DERM served an Environmental Protection Order ("EPO") on the Company and ordered that activities at the Kingaroy pilot plant be suspended until further notice. On the same date DERM also served a notice on the Company to "Conduct or commission an Environmental Evaluation" for the Kingaroy site.
- In addition to requiring the Company cease operations at the Kingaroy pilot plant, the EPO also required the Company to repair and seal production well P4 at the Kingaroy pilot plant; to provide local residents with water supplies; and to undertake a ground water testing program. Subsequent to receiving the original EPO, the Company received two supplementary Orders which removed the requirement to supply water, relaxed the frequency and scope of the ground water testing requirements and postponed the requirement to repair and seal production well P4 until the Company submits an acceptable well repair report (though the obligation to cease UCG operations remains).
- 16 and 20 July The ASX granted a request from the Company for a trading halt of its shares on 16 July 2010. On 20 July 2010 the ASX granted a request from the Company for voluntary suspension from quotation of the Company's shares on the ASX.
- 23 July As a result of a review of the Company's operational and financial requirements by the Board of Directors, the Company terminated the employment of the majority of staff at the Kingaroy project and in the Brisbane and Melbourne offices. This step was taken to consolidate the Company's financial position. The resulting cost of termination payments was \$346,170.
- 11 August DERM advised by a media release issued on 11 August 2010 that further (and for the time being final) groundwater sample results from in and around the pilot plant at Kingaroy present "... no concerns with water quality in the local bores" and are "... below Australian Drinking Water Guideline standards ...". Restrictions were removed on the use of groundwater bores in a two kilometres radius around the Kingaroy pilot plant.
- 16 August The Company submitted its Environmental Evaluation to DERM on 16 August 2010. The Environmental Evaluation required the Company to identify the source, cause and extent of the alleged contamination of ground water on and around the project site. The Environmental Evaluation concluded that air injected into production well P4 may have escaped through a break in the casing and adjacent damaged cement grout and travelled through the groundwater system to transport traces of hydrocarbons to monitoring bores T5037 and T5038. The Environmental Evaluation confirmed that with the exception of the results attributed to monitoring bores T5037 and T5038, all results received by the Company from its testing of bores monitored within a 2 kilometres radius of the pilot plant area were below the limits of detection. In submitting its Environmental Evaluation, the Company proposed to install up to 4 new monitoring bores within the project area to determine whether remnant benzene or toluene is present within this area. It was proposed that the location and depth of these monitoring bores will be determined after discussions with the Company's hydro geological consultants. The Environmental Evaluation also noted the possibility that hydrocarbons introduced into the relevant monitoring bores at the time of sampling could not be discounted as a possible cause of the trace detections. The Company's evaluation of the possible reasons for the breakage in production well P4's casing has led to the design of a modified casing and grouting system which has been incorporated into the design and installation of two new process wells (P5 and P6) in preparation for a potential re-ignition of the pilot burn at Kingaroy.
- 24 August DERM advised that it was not prepared to accept the Environmental Evaluation in the form submitted by the Company. DERM stated it would issue a new notice to "Conduct or commission an Environmental Evaluation" seeking clarification in relation to certain aspects of the Environmental Evaluation as well as further new materials and information.

**DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

REVIEW OF OPERATIONS (continued)

- 31 August The Company and YA Global Master SPV Ltd ("YA") executed a variation to the YA Facility originally entered into on 26 February 2010. The total YA Facility commitment amount is unchanged at \$10 million and the YA Facility expires on 25 February 2015. The YA Facility contains terms and conditions which are generally seen in equity financing facilities. The YA Facility makes provision for the Company, at its election, to request funds by issuing "advance notices" to YA. Under the current operative provisions of the YA Facility, advance notices are subject to a pricing period of 10 ASX trading days and may not exceed \$100,000 per advance other than with YA's consent. Once the pricing period has concluded, funds are made available to the Company in exchange for the Company issuing new shares (at the applicable price) to YA. No more than one advance notice may be outstanding at any time. The YA Facility makes provision for accessing larger amounts under an advance notice of up to \$700,000 based on the average daily trading value of the shares exceeding agreed monetary thresholds. In addition to the funding provided under the advance notices, the YA Facility also permits YA to make "special advances" to the Company provided that agreement is able to be reached on the amount of the special advance and the price at which shares are to be made available to YA. Up to 30 million shares were to be made available to facilitate one or more special advances. Innisfree Pty Ltd, a company associated with the Company's Managing Director, Dr Len Walker, placed 30 million shares into an escrow account under a share lending arrangement to facilitate these special advances. Funding from special advances can be in addition to funding sourced through advance notices. The YA Facility is conditional and there are several specified circumstances set out in the YA Facility agreement which constitute "events of default". Should such an event occur, YA may elect to withhold funding and/or terminate the YA Facility. Furthermore, in the event that the Company's shares trade below a defined "minimum acceptable price" (presently AUD 0.03) at any time during a pricing period, the amount of funding available can be reduced at the election of YA.
- 1 September A prospectus in accordance with section 713 of the Corporations Act 2001 was lodged by the Company with ASIC and the ASX. References were made in the prospectus to the economic impact as a result of the termination of staff, reducing the activities at the Kingaroy plant and allocation of cash resources to these unpredicted cash outflows. This enabled the Company's shares to re-commence trading.
- 2 September The Company's shares were reinstated for trading on the ASX.
- 3 September The Company issued 2,058,824 new fully paid ordinary shares to YA as consideration for the activation fee under the YA Facility.
- 3 September Following the resignation of Mr Rodney Watson as Chief Financial Officer and Company Secretary, Ms Sarah Christensen was appointed as Company Secretary and Mr Rajeev Chandra was appointed as Chief Financial Officer.
- 2 – 4 October The Company raised \$1,148,560 gross of fees by requesting special advances under the YA Facility. Consequently, 30 million shares were accessed and sold by YA under the share lending arrangement with Innisfree Pty Ltd, a company associated with Dr Len Walker.
- 8 September Non-Executive Director Dr Michael Dalling, AM passed away suddenly on 8 September 2010.
- 15 September A second supplementary prospectus was lodged by the Company with ASIC and the ASX in light of the share issue to International Holdings Pty Ltd.
- 16 September The Company was served with two further notices to "Conduct or commission an Environmental Evaluation" for the Kingaroy site. The Company was required to provide various submissions to DERM on dates from 24 September to 10 December 2010.
- 22 September Ms Sarah Christensen was appointed a non-executive director of the Company.
- 1 October The Company entered into a strategic arrangement with Limitedless International Holdings Pty Ltd to take up a placement of the Company's shares to the value of \$1,000,000 at a price of 3.5 cents per share and agreed to negotiate a "Definitive Cooperation Agreement" to work jointly with the Company to develop and operate UCG projects in the People's Republic of China.
- 10 November The Company appointed PricewaterhouseCoopers Securities Limited as strategic financial adviser to assess and advise on options available to support the continued growth of the Company in Australia and overseas.
- 26 November The Company held its 2010 Annual General Meeting. All resolutions put to the shareholders were passed at the meeting.

DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

REVIEW OF OPERATIONS (continued)

- | | |
|----------------------|---|
| 10 December | The Company lodged with DERM the final set of reports required in response to the Environmental Evaluation notices issued by DERM in relation to operations at the Company's Kingaroy UCG site in Queensland. |
| 1 July – 31 December | Water sampling tests conducted by the Company throughout the period confirm that the water continues to remain within Australian drinking water guidelines. The Company continued to co-operate and work with the Queensland Government and DERM to enable the re-commencement of the Kingaroy trial project. |
| 1 Sep – 31 December | The Company raises \$450,000 gross of fees under the YA Facility. |

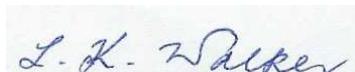
RESULTS OF OPERATIONS

The consolidated net loss after income tax attributable to the owners of Cougar Energy Limited for the half-year ended 31 December 2010 was \$33,059,486 (2009 loss: \$2,095,305) and heavily impacted by the impairment of the Kingaroy Assets by \$31,204,084.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the next page.

This report is made in accordance with a resolution of the directors.



Dr Len Walker
Managing Director

Melbourne,
25 February 2011



Chartered Accountants
& Business Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of Cougar Energy Limited for the half-year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Cougar Energy Limited and the entities it controlled during the year.

J A Mooney
Partner
PKF

25 February 2011
Melbourne

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COUGAR ENERGY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Notes	31 December 2010 \$	30 June 2010 \$
ASSETS			
Current assets			
Cash and cash equivalents	3	1,874,929	2,899,432
Trade and other receivables		222,974	466,283
Other financial assets		1,990,025	2,313,000
Total current assets		4,087,928	5,678,715
Non-current assets			
Other financial assets		16,154	29,076
Investments in joint ventures		11,670	13,490
Property, plant and equipment		1,289,612	869,877
Exploration and evaluation assets	4	1,047,776	30,207,398
Intangible assets		635,638	883,963
Total non-current assets		3,000,850	32,003,804
TOTAL ASSETS		7,088,778	37,682,519
LIABILITIES			
Current liabilities			
Trade and other payables		582,730	1,639,663
Provisions		102,146	186,644
Total current liabilities		684,876	1,826,307
Non-current liabilities			
Borrowings		35,581	41,129
Provisions		552,327	552,344
Total non-current liabilities		587,908	593,473
TOTAL LIABILITIES		1,272,784	2,419,780
NET ASSETS		5,815,994	35,262,739
EQUITY			
Contributed equity		67,666,840	63,961,812
Unissued equity – ordinary shares		-	14,400
Reserves		770,485	807,673
Accumulated losses		(62,669,271)	(29,609,785)
Total equity attributable to the owners of Cougar Energy Limited		5,768,054	35,174,100
Non-controlling interests		47,940	88,639
TOTAL EQUITY		5,815,994	35,262,739

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

COUGAR ENERGY LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Notes	Half Year Ended 31 December 2010 \$	Half Year Ended 31 December 2009 \$
REVENUE FROM CONTINUING OPERATIONS			
Interest received		97,891	188,738
Unrealised gain on foreign currency		133	43
Total Revenue		98,024	188,781
EXPENSES FROM CONTINUING OPERATIONS			
Administrative costs		39,984	40,826
Communication costs		158,569	145,452
Exploration expenses		-	17,833
Unrealised losses on foreign currency		20,370	8,056
Insurance premiums		101,968	52,798
Motor vehicle expenses		4,692	2,427
Payroll costs		595,137	759,158
Professional fees		552,440	230,367
Repairs and maintenance		4,239	8,267
Securities quotation fees		84,243	131,867
Share-based payments		(33,234)	171,071
Tenancy costs		102,702	91,487
Loss on disposal of property, plant equipment		24,131	-
Impairment of Exploration costs	4	31,204,084	-
Travel costs		70,671	128,566
Written off assets		768	75,892
Total Expenses		32,930,764	1,864,067
LOSS BEFORE INTEREST, INCOME TAX, DEPRECIATION AND AMORTISATION		(32,832,740)	(1,675,286)
Interest paid		(334)	(1,820)
Depreciation		(55,318)	(29,067)
Amortisation		(207,474)	(424,168)
LOSS BEFORE INCOME TAX FROM CONTINUING OPERATIONS		(33,095,866)	(2,130,341)
Income Tax Expense		-	-
TOTAL LOSS AFTER INCOME TAX FOR THE YEAR		(33,095,866)	(2,130,341)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX			
Movement in exchange in the translation of foreign operations		(8,273)	(1,250)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		(8,273)	(1,250)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(33,104,139)	(2,131,591)
Loss for the year Attributable to Non-Controlling interests		(36,380)	(35,036)
Loss for the year Attributable to Owners of Cougar Energy Limited		(33,059,486)	(2,095,305)
Total Comprehensive Income Non-Controlling interests		(40,699)	(35,703)
Total Comprehensive Income - Owners of Cougar Energy Limited		(33,063,440)	(2,095,888)
		(33,104,139)	(2,131,591)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

COUGAR ENERGY LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONT'D)
FOR THE YEAR HALF YEAR ENDED 31 DECEMBER 2010

	Notes	2010 Basic (cents)	2010 Diluted (cents)	2009 Basic (cents)	2009 Diluted (cents)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE PARENT ENTITY FROM:					
Continuing operations		(3.47)	(3.47)	(0.26)	(0.26)
NET LOSS PER SHARE		(3.47)	(3.47)	(0.26)	(0.26)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

COUGAR ENERGY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

Consolidated Transactions:	Equity attributable to the owners of COUGAR ENERGY LIMITED						Total Equity \$
	Contributed Equity \$	Share-based Payments Reserve \$	Foreign Currency Translations Reserve ("FCTR") \$	Accumulated Losses \$	Equity Attributable to equity Holders of the Parent \$	Non-Controlling Interests in Group Entities \$	
Balances at 01-07-2010	63,976,212	833,832	(26,159)	(29,609,785)	35,174,100	88,639	35,262,739
<u>Comprehensive income transactions</u>							
Loss after tax for the period	-	-	-	(33,059,486)	(33,059,486)	(36,380)	(33,095,866)
Other comprehensive income							
Movement in the FCTR	-	-	(3,954)	-	(3,954)	(4,319)	(8,273)
Total comprehensive income	-	-	(3,954)	(33,059,486)	(33,063,440)	(40,699)	(33,104,139)
<u>Transactions with owners in their capacity as owners</u>							
(a) Contributions by owners							
New ordinary share issues	4,034,005	-	-	-	4,034,005	-	4,034,005
Ordinary share issue costs	(343,377)	-	-	-	(343,377)	-	(343,377)
Fair value of shares issued for no consideration	-	-	-	-	-	-	-
Share-based payments	-	(33,234)	-	-	(33,234)	-	(33,234)
(b) Distributions to owners							
Dividends paid	-	-	-	-	-	-	-
(c) Changes in ownership interests in group entities							
Accumulated losses adjustment due to ownership interest change	-	-	-	-	-	-	-
Non-controlling interest in group entity share issues	-	-	-	-	-	-	-
Total transactions with owners	3,690,628	(33,234)	-	-	3,657,394	-	3,657,394
Balances at 31-12-2010	67,666,840	800,598	(30,113)	(62,669,271)	5,768,054	47,940	5,815,994

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

COUGAR ENERGY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

Consolidated Transactions:	Equity attributable to the owners of COUGAR ENERGY LIMITED						Total Equity \$
	Contributed Equity \$	Share-based Payments Reserve \$	Foreign Currency Translations Reserve ("FCTR") \$	Accumulated Losses \$	Equity Attributable to equity Holders of the Parent \$	Non-Controlling Interests in Group Entities \$	
Balances at 01-07-2009	44,404,432	1,556,434	(23,713)	(25,511,176)	20,425,977	52,617	20,478,594
<u>Comprehensive income transactions</u>							
Loss after tax for the period	-	-	-	(2,095,305)	(2,095,305)	(35,036)	(2,130,341)
Other comprehensive income							
Movement in the FCTR	-	-	(583)	-	(583)	(667)	(1,250)
Total comprehensive income	-	-	(583)	(2,095,305)	(2,095,888)	(35,703)	(2,131,591)
<u>Transactions with owners in their capacity as owners</u>							
(a) Contributions by owners							
New ordinary share issues	16,591,250	-	-	-	16,591,250	-	16,591,250
Unlisted vendor options exercised	2,708,250	(983,250)	-	-	1,725,000	-	1,725,000
Ordinary share issue costs	(627,120)	-	-	-	(627,120)	-	(627,120)
Fair value of shares issued for no consideration	885,000	-	-	-	885,000	-	885,000
Share-based payments	-	171,071	-	-	171,071	-	171,071
(b) Distributions to owners							
Dividends paid	-	-	-	-	-	-	-
(c) Changes in ownership interests in group entities							
Accumulated losses adjustment due to ownership interest change	-	-	-	159	159	(159)	-
Non-controlling interest in group entity share issues	-	-	-	-	-	93,485	93,485
Total transactions with owners	19,557,380	(812,179)	-	159	18,745,360	93,326	18,838,686
Balances at 31-12-2009	63,961,812	744,255	(24,296)	(27,606,322)	37,075,449	110,240	37,185,689

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

COUGAR ENERGY LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Notes	Half Year Ended 31 December 2010 \$	Half Year Ended 31 December 2009 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees (including GST)		(2,687,774)	(2,434,199)
Interest received		97,943	188,486
Interest paid		(334)	(1,824)
Net cash (outflow) from operating activities		(2,590,165)	(2,247,537)
CASH FLOWS FROM INVESTING ACTIVITIES			
Refund/(Payments) for security deposits on long-term tenancies		12,614	(73)
Payments for property, plant and equipment		(726)	(145,990)
Payments for exploration and evaluation assets		(2,478,576)	(8,311,299)
Payments for intangible assets		-	(500,000)
Payments for loans to non-related entities		(267)	-
Repayment of loans made to non-related entities		-	50,000
Refund of portion long term guarantee		67,500	-
Proceeds of loans received from non-related entities		-	13,910
Payments for investments in group entities		-	(86,505)
Proceeds of sales from Fixed Assets		40,455	-
Payments for loans to related entities		(7,218)	(613)
Net cash (outflow) from investing activities		(2,366,218)	(8,980,570)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from ordinary shares issued by the parent entity		4,034,005	16,591,250
Proceeds from ordinary shares issued by controlled entities		-	179,992
Proceeds from the exercising of unlisted vendor options		-	1,725,000
Payments for share issue costs		(341,189)	(627,121)
Net cash inflow from financing activities		3,692,816	17,869,121
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		(1,263,567)	6,641,014
Cash and cash equivalents at the beginning of the half year		3,862,432	6,367,748
Effects of exchange rate changes on cash and cash equivalents		(16,441)	(3,211)
CASH AND CASH EQUIVALENTS AT THE END OF THE HALF YEAR	3	2,582,424	13,005,551

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

COUGAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

NOTE 1 SUMMARY OF ACCOUNTING POLICIES

Corporate Information

The financial report of Cougar Energy Limited (the 'Company') for the half-year ended 31 December 2010 was authorised for issue in accordance with a resolution of the directors as per the date of signature on the directors declaration. Cougar Energy Limited is a company limited by shares incorporated in Australia whose shares are publically traded on the Australian Securities Exchange ('ASX') with the ASX trading code of 'CXY'.

Basis of preparation

This general purpose condensed financial report for the half-year ended 31 December 2010 has been prepared in accordance with the Corporations Act 2001 and AASB 134 "Interim Financial Reporting" ("AASB 134").

The half-year financial report does not include notes of the type normally included in an annual financial report and therefore should be read in conjunction with the annual financial report for the year ended 30 June 2010 and considered together with any public announcements made by during the half-year ended 31 December 2010 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

The accounting policies and methods of computation adopted in the preparation of the half-year are consistent with those adopted and disclosed in the Company's annual financial report for the year ended 30 June 2010. All amounts are presented in Australian dollars, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Principles of consolidation

These half-year consolidated financial statements are those of the consolidated entity (the group), comprising the financial statements of the parent entity (Cougar Energy Limited) and all of the entities which it controlled from time to time during the half-year and as at the respective balance dates stated in these financial statements. Note 2 to these financial statements lists all of the subsidiary entities controlled by Cougar Energy Limited.

The financial statements of the subsidiary entities are prepared for the same reporting period as the parent entity, using consistent accounting policies. Should there be any dissimilar accounting policies between the subsidiary entities and those of the parent entity, adjustments are made to the subsidiary entities financial statements to bring them into line with those of the parent entity. All inter-group balances and transactions, including any unrealised profits or losses have been eliminated upon consolidation.

Going Concern

The consolidated entity has incurred a net loss attributable to the owners of Cougar Energy Limited of \$33,059,486 which is inclusive of an impairment charge of \$31,204,084 during the half year ended 31 December 2010 (31 December 2009: loss of \$2,095,305) and had cash outflows from operating activities of \$2,590,165 (31 December 2009: outflows of \$2,247,537).

On 28 January 2011 the Queensland Government's Department of Environment and Resource Management ('DERM') issued to the Company a Notice of Proposed Action in relation to the trial pilot at the Kingaroy site in Queensland. The Notice states that it is DERM's intention to amend the Company's Environmental Authority to:

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

The Company is contesting the basis for the Notice of Proposed Action with a submission due by 28th February. The outcome of this is currently uncertain.

COUGAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (continued)

Going Concern (continued)

On 2 February 2011, Yorkville Associates ('YA') advised the Company that while the YA Facility remains on foot, in light of the Notice of Proposed Action the Company was not able to draw down funds under the facility.

These matters may give rise to a material uncertainty over the consolidated entity's ability to continue as a going concern.

The financial report has been prepared on a going concern basis which assumes the realisation of assets and extinguishment of liabilities in the normal course of business at the amounts stated in the financial report, for the following reasons:

- The Company has put in place two separate financing proposals for the purpose of raising further working capital. The first proposal is for a placement to institutional and sophisticated investors. The second proposal is to raise funds via an extension of the share lending arrangement between YA and Innisfree Pty Ltd.
- The Board is of the opinion that, subject to satisfactory market conditions, the Company will be able to access these financing lines for working capital.
- The Company together with its external advisors PricewaterhouseCoopers Securities Limited (PwCS), is in detailed discussions and negotiations with several parties in respect to an investment in the Company or a potential corporate merger.

The Directors believe that the consolidated entity will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis.

Should the company be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in this financial report. This 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 might be necessarily incurred should the consolidated entity not continue as a going concern.

NOTE 2 INVESTMENTS IN CONTROLLED ENTITIES

Name of controlled entity	Date of Incorporation	Country of Incorporation	Class of Equity held	Cougar Energy Limited's holdings* in controlled entities as at:	
				31 December 2010 %	31 December 2009 %
Cougar Energy UCG Pty Ltd	27-03-2003	Australia	Ord shares	100.00%	100.00%
Cougar Energy (UK) Ltd	01-06-2006	United Kingdom	Ord shares	47.80%	47.80%
Cougar Energy Pakistan (Private) Ltd **	18-03-2008	Pakistan	Ord shares	47.80%	47.80%

* = The proportion of ownership interest is equal to the proportion of voting power held.

** = Cougar Energy Pakistan (Private) Ltd is 100% owned by Cougar Energy (UK) Ltd.

COUGAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

NOTE 3 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	31 December 2010	30 June 2010
	\$	\$
Cash at bank and on hand	<u>1,874,929</u>	<u>2,899,432</u>

Reconciliation to Cash at the End of the Year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Cash at bank and on hand per above	1,874,929	2,899,432
Other current financial assets (excluding non liquid cash items)	<u>707,495</u>	<u>963,000</u>
Cash and cash equivalents per the statement of cash flows	<u>2,582,424</u>	<u>3,862,432</u>

NOTE 4 EXPLORATION AND EVALUATION ASSETS

The Company is required under AASB 6 *Exploration for and the Evaluation of Mineral Resources*, to assess for impairment if facts and circumstances indicate that impairment may exist. Due to the Environmental Protection Order imposed on the Kingaroy site and the current proposed actions to be taken at the Kingaroy site by the Queensland Government's Department of Environment and Resource Management, the Company has applied the provisions of this Standard.

The Company has engaged independent advisors who provided an independent valuation of the physical assets on the site. The Accounting Standard requires a value in use or valuation basis of fair value less costs to sell ('fair value') in an active market where willing buyers and prices are available to the public. As the assets are not currently in use the fair value approach has been used as the basis for the valuation. Further as the assets are not of the kind that are easily tradeable the basis for the actual values shown have been interpreted from the advisors report and other considerations.

The company has lodged a submission with the Queensland Government contesting the proposed action. Should the Company be successful, the Board will consider the write up of asset values. The company will also consider write up of asset values if alternative uses are found for any appropriate assets.

	31 December 2010	30 June 2010
	\$	\$
<u>(a) Kingaroy, Qld UCG Project</u>		
Cost at the start of the financial period	29,207,398	12,382,627
Additions for the period	2,538,609	16,824,771
Impairment charge for the period	(31,204,084)	-
Reclassification of assets to Property Plant & Equipment	(541,923)	-
Cost at the end of the financial period*	<u>-</u>	<u>29,207,398</u>
<u>(b) Wandoan, Qld UCG Project</u>		
Cost at the start of the financial period	900,410	523,485
Additional expenditure	52,772	376,925
Cost at the end of the financial period	<u>953,182</u>	<u>900,410</u>
<u>(c) Thar Desert Project, Pakistan</u>		
Cost at the start of the financial period	99,590	-
Additional expenditure	-	99,590
Translational loss	(4,996)	-
Cost at the end of the financial period	<u>94,594</u>	<u>99,590</u>
Total exploration and evaluation assets	<u>1,047,776</u>	<u>30,207,398</u>
<u>(*) Composition of Kingaroy UCG Assets</u>		
Pilot Plant	-	14,051,956
Undergrounding and Evaluation assets	-	<u>15,155,442</u>
Kingaroy related evaluation assets	-	<u>29,207,398</u>

COUGAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

NOTE 5 EQUITY SECURITIES ISSUED

During the half-year ended 31 December 2010, the following equity securities were issued.

	Consolidated Group and Cougar Energy limited				
	Issue Price	Securities Issued	Net Proceeds	Securities Issued	Net Proceeds
	\$	2010 Number	2010 \$	2009 Number	2009 \$
(a) Movements in fully paid ordinary shares					
Contributed equity at the start of the half-year		919,127,810	63,976,212	645,521,749	44,404,432
<u>Gross Proceeds received from:</u>					
New shares issued – asset acquisition (MDL385)	0.0590	-	-	15,000,000	885,000
New shares issued – share placement	0.0720	17,775,408	1,202,538	-	-
New shares issued – share placement	0.0340	2,058,824	64,250		
New shares issued – share placement	0.0320	3,125,500	94,266		
New shares issued – share placement	0.0347	4,322,767	141,750		
New shares issued – share placement	0.0383	30,000,000	911,582		
New shares issued – share placement	0.0303	3,300,330	94,250		
New shares issued – share placement	0.0350	28,571,429	993,362		
New shares issued – share placement	0.0304	3,289,474	94,315		
New shares issued – share placement	0.0300	3,333,333	94,315		
New shares issued – share placement	0.0825			100,500,000	7,822,774
New shares issued – share purchase plan	0.0825	-	-	100,606,061	8,141,357
Unlisted vendor options exercised	0.0300	-	-	57,500,000	1,725,000
<u>Transfers from share-based payments reserves:</u>					
Fair value of unlisted vendor options exercised	0.0171	-	-	-	983,249
Contributed equity at the end of the half-year		1,014,904,875	67,666,840	919,127,810	63,961,812
(b) Movements in fully paid unlisted management options					
Reserve balance at the start of the half-year		24,800,000	833,832	20,600,000	573,184
<u>Fair value adjustments for new options issued</u>					
Pro-rata fair value recognition over three-year vesting period	0.0000	-	-	4,200,000	59,502
<u>Fair value adjustments for existing options</u>					
Pro-rata fair value recognition over three-year vesting period	0.0000	-	19,083	-	111,569
Expiry of options issued 31/01/08 @\$.10	0.0000	(10,800,000)	-		
Management options forfeited	0.0145	(3,600,000)	(52,317)		
Reserve balance at the end of the half-year		10,400,000	800,598	24,800,000	744,255

COUGAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

NOTE 6 SEGMENT INFORMATION

The principal business of the group is the development of its Underground Coal Gasification (UCG) projects primarily in Australia with limited preliminary operations in Pakistan and the United Kingdom.

Management has determined the operating segment based upon reports reviewed by the Board and executive management that are used to make strategic decisions. Management and the Board consider the business only from a UCG operational perspective and therefore only reviews reports based upon its current UCG development operations as disclosed within these financial statements. Whilst the company has invested limited capital into its overseas operations, both the Board and management consider these insignificant for separate segment reporting purposes.

The Company has also invested time and capital in evaluating potential new UCG projects in Australia and overseas. The Board does not request management to separately report on these initiatives and therefore do not consider the need to report on them as a separate segment.

NOTE 7 CONTINGENT LIABILITIES

As at 31 December 2010, the consolidated group and Cougar Energy Limited had the following additional contingent liability.

Amounts potentially payable under orders made by DERM for works at Kingaroy

On 28 January 2011 DERM issued to the Company a Notice of Proposed Action in relation to the trial pilot at the Kingaroy site in Queensland. The Notice states that it is DERM's intention to amend the Company's Environmental Authority to:

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

Under the Notice of Proposed Action DERM is proposing to order further groundwater monitoring to be undertaken at the Company's Kingaroy site. The Company is currently contesting the Notice of Proposed Action. It is of the opinion that whilst sufficient additional monitoring has already been put in place (water sampling regime, 13 additional sampling bores) the Company needs to ascertain whether further monitoring needs to be installed. The Company has previously provided a Bond for the rehabilitation as part of its MDL (Mining Development Licence) obligations.

COUGAR ENERGY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

NOTE 8 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The following table sets out in chronological order the significant events that have occurred since 31 December 2010, involving Cougar Energy Limited ("CXY") or its subsidiary entities. Where possible the financial impact of each event has also been quantified. These financial effects have not been brought to account at 31 December 2010.

Effective Date	Transaction details and financial impact:
10 January 2011	CXY announced a \$1 Million capital raising at 3.7 cents per share with a placement of 27,027,027 shares to sophisticated, institutional and professional investors.
12 January 2011	A third supplementary prospectus was lodged with ASIC supplementing the previous prospectus and was released in light of the share placement undertaken on the 10 th January.
17 January 2011	DERM deferred its decision date in relation to Cougar Energy's Environmental Evaluation reports to January 28 th .
24 January 2011	Eneabba Gas Limited (ASX:ENB) released an announcement to the ASX. Contemporaneous to this announcement, CXY received without prior notice, a letter from Eneabba Gas alleging 'repudiation' by Cougar Energy of the Terms sheet signed in June 2010 between the Company and Eneabba Gas entities. CXY responds stating that it does not accept the allegations, was disappointed and was seeking legal advice.
28 January 2011	DERM issued to the Company a Notice of Proposed Action in relation to the trial pilot at the Kingaroy site in Queensland. The Notice states that it is DERM's intention to amend the Company's Environmental Authority to: <ul style="list-style-type: none"> (a) limit all UCG activities on site to decommissioning, rehabilitation, and care and maintenance of the site; (b) providing for an ongoing groundwater monitoring program across a range of quality characteristics, until results indicate that all contaminants (if any) are consistent with the "background level" for a period of six months; (c) provide for strict notification guidelines in the event that further contaminants are recorded in any of the monitoring bores; and (d) provide for a documented decommission and rehabilitations procedure to be prepared with regards to the underground cavity and (if any) affected groundwater. <p>The ASX granted the Company a trading halt until 1 February 2011 to consider the implications of the Notice of Proposed Action.</p>
31 January 2011	As a result of the recent holiday period in Australia and Chinese New Year celebrations, the Company and Limitless International Holdings Pty Limited agreed to extend the duration of their current Terms Sheet to give sufficient time to complete a technical review of the coal leases which will form part of potential UCG projects in the People's Republic of China.
1 February 2011	A fourth supplementary prospectus was lodged with ASIC and the ASX supplementing the previous prospectus in light of the Notice of Proposed Action issued by DERM. The trading halt was lifted and the Company's shares re-commenced trading.
2 February 2011	YA advised that in light of the Notice of Proposed Action issued by DERM, while the YA Facility remains on foot, the Company is presently unable to draw down funds under that Facility while the Notice remains in place.
8 February 2011	The Company announces that PwCS has been engaged to approach a select number of companies to explore investments in the Company and merger and acquisition opportunities in Australia and/or offshore.
8 February 2011	A fifth supplement prospectus was lodged with ASIC and the ASX supplementing the previous prospectus in light of the notice from YA limiting funding under the YA Facility while the Notice of Proposed Action is in place.

COUGAR ENERGY LIMITED

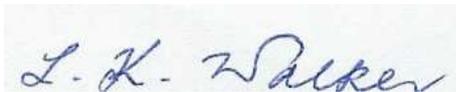
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**DIRECTORS' DECLARATION
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

The directors of Cougar Energy Limited declare that :

1. the financial statements and notes are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half year ended on that date; and
 - (b) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that Cougar Energy Limited will be able to pay its debts as and when they become due and payable for the reasons documented in Note 1 to the financial statements.

This declaration is made in accordance with a resolution of the directors.

A handwritten signature in blue ink that reads "L. K. Walker". The signature is written in a cursive style and is positioned above the printed name and title of the signatory.

Dr Len Walker,
Managing Director

Melbourne,
25 February 2011



Chartered Accountants
& Business Advisers

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF COUGAR ENERGY LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying consolidated half-year financial report of Cougar Energy Limited, which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-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. The consolidated entity comprises Cougar Energy Limited (the company) and the entities it controlled at 31 December 2010 or from time to time during the half-year ended on that date.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Cougar Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Cougar Energy Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

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Chartered Accountants
& Business Advisers

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF COUGAR ENERGY LIMITED (CONT'D)**

Emphasis of Matter – Material Uncertainty Regarding Continuation As a Going Concern

Without qualifying our conclusion, we draw attention to Note 1 "Going Concern" in the financial report, which indicates that the consolidated entity incurred a net loss attributable to owners of \$33,202,786 which is inclusive of an impairment charge of \$31,204,084 for the half-year ended 31 December 2010, had net cash outflows from operating activities amounting to \$2,590,165 and net cash outflows from investing activities amounting to \$2,366,218. These conditions along with other matters set forth in Note 1 "Going Concern" give rise to a material uncertainty which may cast significant doubt about the ability of the consolidated entity to continue as a going concern, and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

PKF

25 February 2011
Melbourne

J A Mooney
Partner