



23 September 2011

Notice of Annual General Meeting 2010-11 Annual Report

As previously published and in accordance with Listing Rule 3.13.1, **Cougar Energy Limited** (ASX: CXY) advises that its 2011 Annual General Meeting is scheduled for 10am on Friday 28 October 2011 at Oaks on Market, 60 Market Street, Melbourne, Victoria.

Attached are the Notice of Annual General Meeting and Information Memorandum and Annual Report for the 12 months to 30 June 2011, which are being distributed to shareholders today.

Investor contacts:

Dr Len Walker
Managing Director
Tel: + 61 419 587 396

Brad Glynne
GM – Corporate Finance
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John Field
Field Public Relations
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COUGAR ENERGY LIMITED

ACN 060 111 784

Notice of Annual General Meeting and Information Memorandum 28 October 2011

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that an Annual General Meeting (**AGM** or **Meeting**) of the members of Cougar Energy Limited (the **Company** or **CXY**) will be held at Oaks on Market, 60 Market Street, Melbourne, Victoria on Friday, 28 October 2011 at 10 am (the **Meeting**).

If you are unable to attend the Meeting, we encourage you to complete and return the enclosed Proxy Form. The completed Proxy Form must be received at the Company's share registry or the registered office of the Company, at least 48 hours before the commencement of the Meeting.

An Information Memorandum accompanies, and forms part of, this Notice of Meeting. Members should read the Information Memorandum in full.

BUSINESS

1) Chairman's Address

Significant events during the financial year.

2) Financial Report for the year ended 30 June 2011

The Financial Report of the Company for the year ended 30 June 2011 together with a Directors' Report and the Auditors' Report on the Financial Report will be presented to the Meeting for review.

PROPOSED RESOLUTIONS

Remuneration Report

1) Resolution 1 – as an Ordinary Resolution

"That the Remuneration Report for the year ended 30 June 2011 be adopted by the members."

Voting Restriction on Resolution 1

In accordance with section 250R of the Corporations Act 2001 (Cth), the Company will disregard any votes cast (in any capacity) on Resolution 1 by or on behalf of either of the following persons:

- a) a member of the key management personnel details of whose remuneration are included in the Remuneration Report;
- b) a closely related party of such a member.

However, any of these persons may cast a vote on Resolution 1 if:

- c) the person does so as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution; and
- d) the vote is not cast on behalf of a person described in paragraph (a) or (b) above.

As noted below (refer "Proxies" section) and subject to the voting restrictions on Resolution 1 set out above, a member who appoints the Chairman as proxy will be deemed to have directed the Chairman to vote in favour of Resolution 1 in circumstances where he or she fails to provide a direction to the contrary.

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

Approval of prior Issue of Securities

2) Resolution 2 – as an Ordinary Resolution

“That, for the purposes of ASX Listing Rule 7.4, and for all other purposes, members approve and authorise the Company’s prior issue of 117,939,598 fully paid ordinary shares to sophisticated and institutional investors who participated in share placements on the terms described in the Information Memorandum which accompanies and forms part of this Notice of Meeting.”

Voting Restriction on Resolution 2

In accordance with ASX Listing Rule 14.11, the Company will disregard any votes cast on Resolution 2 by the recipients of the shares or their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

As noted below (refer “Proxies” section) and subject to the voting restrictions on Resolution 2 set out above, a member who appoints the Chairman as proxy will be deemed to have directed the Chairman to vote in favour of Resolution 2 in circumstances where he or she fails to provide a direction to the contrary.

Dated this 23rd day of September 2011

By order of the Board



Sarah Christensen

Company Secretary

Cougar Energy Limited

Proxies

- A member entitled to attend and vote at the Meeting is entitled to appoint a proxy. A proxy need not be a member of the Company.
- Proxies must be identified on the form approved by the Directors and notifications of proxy appointments must be lodged at the registered office of the Company or the Company’s share registry, no later than 48 hours before the commencement of the Meeting (that is by 12:30pm on Wednesday, 26 October 2011), or an adjournment of the Meeting.
- A form of proxy together with a return addressed envelope is provided with this notice. Proxies may be faxed to the share registry at 1800 783 447 (within Australia) and +61 (0)3 9473 2555 (outside Australia).
- A member who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the proportion or number of votes each proxy may exercise is not specified, then each proxy may exercise up to half of the member’s votes.
- If you appoint more than one proxy, neither proxy is entitled to vote on a show of hands.
- If proxy holders vote, they must cast all directed proxies as directed. Any directed proxies that are not voted will automatically default to the Chairman, who must vote the proxies as directed.
- **Subject to the relevant voting exclusion rules, the Chairman advises his intention to vote all undirected proxies held by him in favour of all resolutions. Unless members otherwise indicate by ticking the “for” or “against” or “abstain” box in the enclosed Proxy Form, members will be deemed to direct the Chairman to vote in favour of the resolutions. Members can still appoint the Chairman as proxy with a direction to cast the vote against the resolutions or abstain from voting on the resolutions.**

Corporate Representatives

Any corporation which is a member of the Company may authorise (by certificate under common seal or other form of execution authorised by the laws of that corporation’s place of incorporation or in any manner satisfactory to the Chairman of the Meeting) a natural person to act as its representative at the Meeting.

Custodian Voting

For Intermediary online subscribers only (custodians) please visit www.intermediaryonline.com to submit your voting intentions.

Voting Entitlement

A person’s entitlement to vote at the Meeting will be determined by reference to the number of fully paid shares registered in the name of that person (reflected in the register of members) as at 7.00pm (Melbourne time) on Wednesday 26 October 2011.

INFORMATION MEMORANDUM

This Information Memorandum has been prepared to provide members with material information to enable them to make informed decisions on the business to be conducted at the Annual General Meeting of the Company to be held on Friday, 28 October 2011 (AGM or Meeting). Amongst other things, this Information Memorandum provides members with the information required to be provided to members by the Corporations Act 2001 (Cth) (the Act) and the Listing Rules of ASX Limited (the ASX Listing Rules).

BUSINESS

The Act requires that the Financial Report, the Directors' Report and the Auditor's Report be laid before the Meeting. There is no requirement for members to approve these reports. Members will however, be given the opportunity at the Meeting to ask questions and make comments on these reports.

RESOLUTION 1: ADOPTION OF REMUNERATION REPORT

The Annual Report for the year ending 30 June 2011 includes a Remuneration Report in the Directors' Report (commencing on page 13 of the Annual Report). Members will be given the opportunity at the Meeting to ask questions and make comments on the Remuneration Report. The Act requires that a resolution to adopt the Remuneration Report is put to the members at each AGM.

The vote on Resolution 1 is advisory only and does not bind the Directors or the Company. Nevertheless, the Board will take into account the discussion on this item and the outcome of the vote when considering the future remuneration policies and practices of the Company. Furthermore, as a result of a change to the Act which came into effect on 1 July 2011 - known as the "Two Strikes" rule - if a company's remuneration report receives a "no" vote of 25% or more (the first strike), the company's subsequent remuneration report must explain whether members' concerns have been taken into account. Where the company's subsequent remuneration report also receives a "no" vote of 25% or more (the second strike), a resolution must then be immediately put to members as to whether a general meeting should be held (within 90 days) at which all directors (except the managing director) who were in office at the time of the second strike must stand for re-election.

RESOLUTION 2 - APPROVAL OF PRIOR ISSUE OF SECURITIES

Resolution 2 is proposed to obtain member approval for the prior issue of 117,939,598 fully paid ordinary shares to sophisticated and institutional investors on the dates set out below.

Under ASX Listing Rule 7.4 an issue of securities made without approval under ASX Listing Rule 7.1 is treated as having been made with approval for the purpose of ASX Listing Rule 7.1 if shareholder approval is subsequently obtained. Under ASX Listing Rule 7.1 an entity must not issue, or agree to issue, more than fifteen percent (15%) of its capital in any 12 month period without the approval of its members.

By obtaining member approval for the issue of the securities that are the subject of Resolution 2, the Company retains the ability to issue up to fifteen per cent (15%) of its capital to take advantage of any future capital raising opportunities without the need for further member approval.

The following disclosures are provided as required in accordance with ASX Listing Rule 7.5:

- the shares that are the subject of Resolution 2 were issued on the following dates at the following issue prices:

Date of issue	Number of shares issued	Price of issue	Investors
25 November 2010*	912,571	AUD 0.0304 (3.04 cents)	YA Global Master SPV
12 January 2011	27,027,027	AUD 0.037 (3.7 cents)	Institutional and sophisticated investor clients of Lodge Partners
14 April 2011	90,000,000	AUD 0.03 (3 cents)	Institutional and sophisticated investor clients of Melbourne Capital Limited

* These shares were among the 3,289,474 shares that were issued by the Company on 25 November 2010. Members approved the issue of the balance of the shares issued on 25 November 2010 at the Company's 2010 Annual General Meeting (refer to resolution 9 at that meeting).

- the shares that are the subject of Resolution 2 were issued on the same terms as the Company's existing fully paid ordinary shares;
- the Company has used or intends to use the funds raised from the share placements (together with other funds raised) to contest a decision by the Queensland Government Department of Environment and Resource Management (DERM) to effect the close down of the Kingaroy site; defend itself in proceedings brought against it under the Queensland Environmental Protection Act 1994 by DERM; undertake further works to comply with an amended Environmental Authority issued by DERM in respect of the Kingaroy site; continue development works at the Company's projects in Asia and working capital requirements.

INFORMATION MEMORANDUM (CONTINUED)

IMPORTANT NOTE FOR MEMBERS INTENDING TO APPOINT THE CHAIRMAN AS PROXY - UNDIRECTED PROXIES WILL BE DIRECTED IN FAVOUR OF RESOLUTIONS

Subject to the relevant voting exclusion rules, the Chairman advises his intention to vote all undirected proxies held by him in favour of all resolutions. Unless members otherwise indicate by ticking either the "for" or "against" or "abstain" box in the enclosed Proxy Form, members will be deemed to direct the Chairman to vote in favour of the resolutions. Members can still appoint the Chairman as proxy with a direction to cast the vote against the resolutions or abstain from voting on the resolutions.



Cougar Energy Limited ABN 75 060 111 784
Suite 1002, Level 10, 530 Little Collins Street
Melbourne Victoria 3000
www.cougarenergy.com.au



COUGAR ENERGY LIMITED
ANNUAL REPORT 2011

Corporate Directory FOR THE YEAR ENDED 30 JUNE 2011

COUGAR ENERGY LIMITED

ACN 060 111 784

DIRECTORS

Mr Malcolm McAully

Chairman of the Board, Audit Committee Chairman

Dr Leonard Walker

Managing Director

Ms Sarah Christensen

Non-Executive Director

COMPANY SECRETARY

Ms Sarah Christensen

REGISTERED OFFICE

Suite 1002, Level 10

530 Little Collins Street

Melbourne Victoria 3000 Australia

Tel. + 61 3 9909 7200

Fax + 61 3 9909 7217

Website www.cougarenergy.com.au

PRINCIPAL VICTORIAN OFFICE

Same as the registered office

SHARE REGISTRY

Computershare Investor Services Pty Ltd

452 Johnston Street

Abbotsford Victoria 3067 Australia

Tel. + 61 3 9415 5000

Fax + 61 3 9473 2500

AUDITORS

PKF Chartered Accountants

Level 14

140 William Street

Melbourne Victoria 3000 Australia

BANKERS

National Australia Bank Limited

330 Collins Street

Melbourne Victoria 3000 Australia

SOLICITORS

Holman Fenwick Willan

Level 41, 600 Bourke Street

Melbourne Victoria 3000 Australia

STOCK EXCHANGE HOME BRANCH

Australian Securities Exchange Limited (ASX)

Rialto Towers

525 Collins Street

Melbourne Victoria 3000 Australia

ASX SECURITIES CODE

Fully Paid Ordinary Shares **CXY**

COUGAR ENERGY LIMITED
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FOR THE YEAR ENDED 30 JUNE 2011

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**COUGAR ENERGY LIMITED
CHAIRMAN'S REPORT
FOR THE YEAR ENDED 30 JUNE 2011**

Dear Shareholder

The financial year 2010-2011 has been an extraordinarily challenging one, not just for Cougar Energy, but for many in the energy industry in Australia. You will be well aware that the Queensland Government's Department of Environment and Resource Management (DERM) chose to close down the operations at the Company's flagship development site in Kingaroy in July last year, and has maintained that position up to the date of this Report.

This action has led to a wave of misinformed public statements voicing concern about hypothetical contamination which may be caused by operators in both the Underground Coal Gasification (UCG) and Coal Seam Gas (CSG) industries.

Various actions are now being taken or are being contemplated by the Queensland State Government which threaten the future of important sections of the energy industry. They are also generating concerns about sovereign risk for investment into Australia. It is difficult to believe that the threat of energy security facing much of Europe is now becoming relevant in energy-rich Australia.

Despite the current controversy, the Cougar Energy Board of Directors remains steadfast in its belief that the Company's business of commercialising UCG has a rightful place in meeting Australia's and the world's increasing demand for low cost energy. UCG energy production has the least environmental impact on land use of any of the coal utilization methods.

With respect to the Kingaroy project, the Company continues to vigorously contest the actions of DERM, utilising all of its rights available under law. Cougar Energy has not caused any environmental harm to the site nor the properties of surrounding land owners. It has not polluted the environment and it has not contaminated any ground water supplies in the Kingaroy region, nor has it endangered the health of any of the citizens or livestock of Kingaroy.

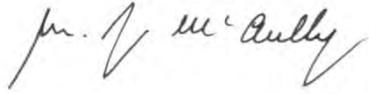
Despite the above facts, DERM continues to pursue the Company without presenting the technical basis for its actions. Cougar Energy has been forced to apply under Freedom of Information legislation in its efforts to obtain the relevant factual evidence from the Government.

Cougar Energy has invested over \$30 million in the Kingaroy site and will strenuously pursue its right to restore value in the Company for all shareholders.

The events of the past year, and their political impact, have cast a cloud over the commercial development of UCG technology in Australia, which may last for some time. This is in contrast to the expansion in UCG activity occurring overseas as a result of the pioneering work undertaken by a number of companies in Australia over the past 10 years. Significant UCG projects are under development by both large and small companies in South Africa, New Zealand, India, Canada and the United States, and are under consideration in many other countries.

Following a strategic review carried out early this year with the assistance of PricewaterhouseCoopers, the Board determined that an aggressive push into the Asian region should be undertaken to provide greater certainty for the future commercial development of both the UCG technology and the Company's long-term future. The Board is confident that UCG technology will find a place in satisfying the future energy demands in this region. Further detail on the progress of this strategy is contained in the Managing Director's Report.

In closing, I wish to acknowledge and thank the very large core group of loyal shareholders, who are supporting us through this challenging period and are genuine believers with us in the environmental and commercial benefits of UCG. I must also express my appreciation to the dedicated team of staff which has remained resolute in its determination to see both fair treatment of the Company in the present, and the achievement of its goals in the future.

A handwritten signature in black ink, appearing to read 'Mr. J. McAully', written in a cursive style.

Malcolm J McAully
Chairman

31 August 2011

**COUGAR ENERGY LIMITED
MANAGING DIRECTOR'S REPORT
FOR THE YEAR ENDED 30 JUNE 2011**

Dear Shareholder

The planned development of Cougar Energy's projects over the past year has been severely impacted by the actions of the Queensland Government's Department of Energy and Resource Management (DERM) in shutting down the Kingaroy pilot plant. As discussed in the Chairman's Report, Cougar Energy is making every effort to restore the value of its investment in Underground Coal Gasification (UCG) both in Kingaroy and elsewhere in Queensland.

In support of the Company's view on the absence of any detrimental impact on the environment from its activity at Kingaroy, it is worth summarizing the results from monitoring data for benzene, the chemical compound which has received most publicity for its potential effect on humans. DERM has confirmed to the public that there is no environmental harm or threat to the Kingaroy farming community or its water supplies.

Within the pilot plant area, Cougar Energy has now installed 13 monitoring bores in the coal overburden layers (of which 3 have insufficient water for sampling), at distances varying from 25 metres to 250 metres from the active gasification zone. In excess of 300 samples have been taken from the 10 bores and tested for benzene, for which the Limit of Detection (LOD) is 1 ppb (part per billion), the same level as for the Australian Drinking Water Limit (ADWL).

Of the more than 300 results, only two isolated readings from sampling in May 2010 of 2ppb (in one monitoring bore 250 metres from the gasification zone) were reported as exceeding the LOD. No detections of benzene above ADWL have been reported from these bores since June 2010, and none of the bores closer to the gasification zone have provided readings exceeding the LOD and the ADWL.

Much higher benzene levels (up to 100ppb) have been reported by Queensland Coal Seam Gas (CSG) companies as being present in their recovered water. In response to these reports the Queensland Government Mining Minister Stirling Hinchcliffe advised in a Ministerial Media Statement dated 13 April 2011 that :

" ... BTEX chemicals are also common components of products such as plastics, petrol and diesel used by industry and farmers alike. Therefore it is impossible to rule out that it could show up in monitoring data. ..."

It would be reasonable to have expected a similar reaction to the isolated trace Benzene readings at Kingaroy.

As discussed in the Chairman's Report, the recent actions of the Queensland Government have created great uncertainty as to the future of UCG in that State, despite the rapid acceptance of UCG overseas. Cougar Energy has undertaken, with the assistance of external consultants, a study to establish a new growth strategy for the Company. We have chosen the building of a viable UCG business in the Asian region as the core of the Company's future development. This decision has been independently aided by a number of direct enquiries made to the Company for support to develop UCG projects in the region.

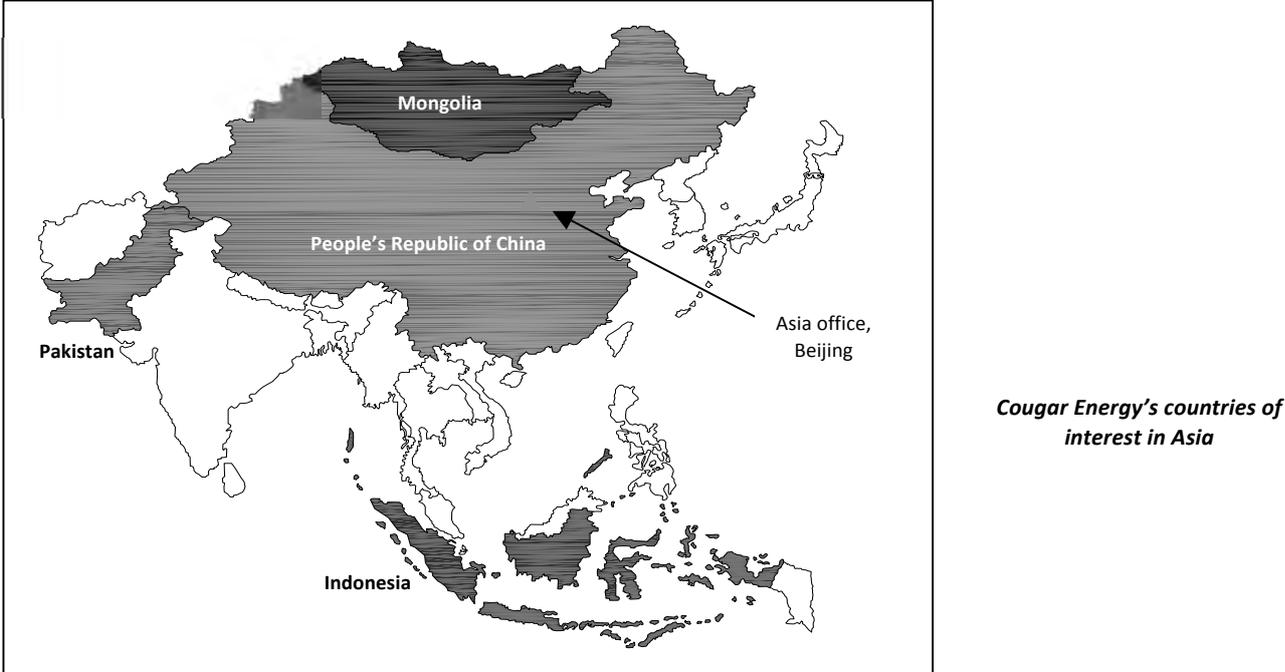
Asian Region Summary

The primary focus of Cougar Energy's expansion in Asia has been into The People's Republic of China, culminating in the opening of an office in Beijing during June of this year. There are clear reasons for this focus:

- China's coal demand is forecast to grow 2.6% p.a. through to 2035.
- China's energy generation is forecast to grow 4.1% p.a. through to 2035.
- 70% of all coal used in China will be for power generation.
- Coal gasification technologies are being promoted in China for both chemical production and, more recently, for power generation.
- UCG technology provides a syngas at substantially lower cost than surface gasification, and the demand for "Clean Coal" technologies in China is rapidly increasing.

The Company's activity in China commenced with the signing of agreements with two private companies in the autonomous regions of Inner Mongolia and Xinjiang. Progress has been slower than hoped for in both locations, largely as the result of the time taken to collect and translate technical data from coal deposits, and the need to assist local authorities with an appreciation of the technology as well as the local legislative procedures relevant to project development.

I am confident that progress can now be accelerated as a result of the Company having established an operating office in Beijing.



At the present time, the Company's main project focal point in China is at the WuNiTe coal deposit in Inner Mongolia, for which a preliminary review of existing technical data suggests that it will be well suited to a UCG project development. Cougar Energy's current activity is concentrated on discussions with the regional authorities to conclude the preparation of project information required for formal approval of a pilot burn as the first stage of project development.

With an operating office in Beijing, the Company anticipates that active field work on at least one project in China will commence during this current financial year, and that additional potential projects will have been identified as part of building up a long-term portfolio of UCG development sites.

In addition to The People's Republic of China, the economies of both Mongolia and Indonesia are highly dependent on coal as their primary source of energy generation. Cougar Energy has selected these countries for attractive opportunities to commercialise UCG technology and to provide a much cleaner and cheaper energy fuel than those fuel sources presently in use.

The commercial appeal of working in Mongolia is also supported by its vast unutilised coal resources, much of which are deeper lignitic coals of little value other than through application of UCG technology, as well as the pressing need to replace aging coal-fired power generation plants. In addition, the country is readily accessible from the Company's Beijing office, creating the opportunity to build a technical capability to service projects in both countries. At the date of this Report, Cougar Energy is engaged in discussions with the Government of Mongolia in relation to the introduction of UCG technology into the country, and in accessing suitable coal deposits with rapid development potential.

With respect to Indonesia, the country's coal resources are concentrated in Sumatra and Kalimantan, rather than the population centres on the main island of Java. They host a thriving coal production and export industry from open cut mining. Cougar Energy believes there is a significant opportunity to develop deeper coal deposits using UCG technology to produce a syngas fuel for the generation of power from smaller regional plants in an area currently serviced by expensive diesel-fired power plants. A longer-term goal of conversion to

synthetic natural gas to supplement existing local gas production is also realistic. Discussions with prospective business partners in Indonesia are currently in progress.

In addition to China, Mongolia and Indonesia, the Company has maintained its interest in an Exploration Licence within Block III of the Thar coal field in Pakistan. The Company has undertaken a number of reviews of existing drillhole data to confirm the potential for UCG technology to be applicable to the large coal resource located within the Licence. In addition, negotiations continue to be held with parties interested in joint venturing the development of a power plant fuelled by gas from UCG production.

Australia

Despite the current cloud placed over UCG development by the actions of the Queensland Government, Cougar Energy believes that UCG has a long-term role to play in Australia’s energy future, particularly as developments internationally confirm the economic and environmental benefits (and safety) achievable in adopting the UCG technology.

As a result of this view, the Company continues to preserve its interests in a number of coal licences in Australia. These are focused in Queensland and Victoria following the Company’s withdrawal from a proposed joint venture with Eneabba Gas on its Sargon tenements in the mid-West region of Western Australia.



Cougar Energy’s coal interests in Australia

The coal licenses held 100% by Cougar Energy are all in Queensland, and are summarised below.

Kingaroy – MDL 385. This area contains a JORC Resource of 73 million tonnes (28 million tonnes indicated and 45 million tonnes inferred), and is the site of the pilot plant which is subject to the current dispute with DERM.

Wandoan – EPC 1118. This licence is in the Surat Basin and contains a JORC Resource of 341 million tonnes (34 million tonnes indicated and 307 million tonnes inferred).

MacKenzie – EPC 1445. This licence was recently granted and covers an area of 2,380 Hectares or 23.8 Km². The tenancy term is three years and the land does not include any protected areas as defined under the Mineral Resources Act 1989.

Putting the dispute over the Kingaroy project aside, the immediate future of UCG in Queensland is dependent upon a decision from the Queensland Government. This decision is currently scheduled to be made in June 2012 after the receipt of recommendations based on a report from an Independent Scientific Panel, appointed to review the results of the three UCG pilot burns being undertaken in that State.

While the acquisition of the above licences by the Company was based on an intended application of UCG technology, it is noted that there is a developing interest in evaluating the economic potential of similar coal

deposits using underground mining techniques. This may be of future application to the MacKenzie licence in particular, due to expectations of higher quality coal being present in that licence.

In Victoria, Cougar Energy maintains its position under a memorandum of understanding (MOU) signed in September 2007 which provides the opportunity for the Company to develop a UCG production facility on designated areas within EL 4416 held by Ignite Energy Resources Ltd. Both companies are in regular discussions as to alternative ways of going forward under this MOU, given the current publicity about potential impacts of the technology. The Company has undertaken a detailed evaluation of data from one of the designated areas within the licence, and has confirmed its interest in taking the project forward at a time and under terms to be mutually agreed.

Summary

Despite the current controversies generated in the public domain in relation to UCG operations and in the absence of any environmental harm created by Cougar Energy, the advantages of UCG technology remain.

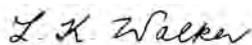
These advantages include:

- minimal ground disturbance compared to both open cut and CSG operations
- a demand on access to land less than 5% of that required for CSG operations
- production of a low-cost fuel suitable for power generation or conversion to chemical products
- provision of domestic energy security and protection from inflated international energy prices, and
- significant reductions in greenhouse gas emissions when used for power generation.

With the surge in interest in commercial development of UCG technology internationally, despite the current uncertainty created in Australia, the Company is confident that these advantages will lead to the inevitable conclusion that the development of UCG technology should be part of Australia's long-term energy generation mix.

In the interim, Cougar Energy believes that UCG will quickly prove to be an accepted and commercially viable energy source in the Asian region. We are already seeing that the governments and partners with whom we are negotiating understand the benefits of UCG for their local economies - by transforming uneconomic coal resources into low cost production sites for electricity, as well as preserving the environment and reducing carbon emissions from the use of coal.

Despite recent setbacks, these are exciting developments as Cougar Energy diversifies its development portfolio and reduces project risk from any one site, as well as sovereign risk in any one country. Your Board and staff have good reason to look forward to progress over the next year with optimism and enthusiasm.



Len Walker
Managing Director

31 August 2011

COUGAR ENERGY LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2011

The Directors of Cougar Energy Limited submit this Annual Report, together with the financial statements of the Consolidated Group (consisting of the Parent Entity and its controlled entities) for the financial year ended 30 June 2011, made in accordance with a resolution of the Directors.

DIRECTORS

The names and particulars of the qualifications, experience, special responsibilities and equity interests of the Directors in office during the financial year ended 30 June 2011 and up until the date of this Annual Report are set out below. Mr Malcolm McAully and Dr Len Walker were directors for the whole of the financial year and up to the date of this Annual Report.

Name and Qualifications	Age	Experience	Listed Directorships in last 3 years	Special Responsibilities	Interests in Shares and Options
Len Walker BE, PhD (Cantab), MBA, FAusIMM, FAIE	70	Appointed 9 October 2006. Dr Walker graduated in Civil Engineering specialising in geotechnical engineering, and spent 15 years practising as a consulting engineer, including 11 years as Managing Director of Golder Associates Pty Ltd. He has had over 20 years experience in the development of small resource companies, and has served as Managing Director of three ASX listed companies. His involvement in UCG commenced in 1982, and in 1996 he founded Linc Energy Pty Ltd, was Managing Director from 1996 to 2002, and was responsible for development of the successful UCG test burn at the Chinchilla, Queensland site. He founded Cougar Energy Pty Ltd in 2006 prior to its sale and listing in September 2006.	None	Managing Director	108,836,948 shares
Malcolm McAully B.Bus, Grad Dip Bus, MBA, GAICD	51	Appointed 10 December 2002. Mr McAully operates a management consulting business focusing on organisational performance and strategic planning trading as M J McAully Management Consulting. Currently he has four board Directorships and holds post-graduate qualifications in Business from the University of NSW, Bond University and University of Tasmania. Malcolm started his career in audit and moved to Lend Lease Financial Services as National Administration Manager – MLC Life. He moved to Tasmania in 1997 to take up the position of Group General Manager for Hazell Bros, a large civil construction and transportation company.	None	Non-executive director, Chairman and Chairman of the Audit Committee	620,865 shares
Sarah Christensen B.EC, LLB, LLM, MBA	46	Appointed 22 September 2010. Ms Christensen is a lawyer with over 20 years experience in the provision of legal and public company secretarial services for leading corporate organisations. Ms Christensen has specific expertise in the resources and financial services sectors.	None	Company Secretary and member of the Audit Committee	None
Michael Dalling* AM, M.Agr.Sci, PhD	64	Dr Dalling had a long career associated with new technologies in their research, start-up and development phases. Following a 13 year career at Melbourne University, he served for 8 years as Managing Director of Calgene Pacific Pty Ltd, one of Australia's first biotechnology companies. He was Managing Director of the Strategic Industry Research Foundation Limited, a joint initiative of the Victorian Government and CSIRO, which led to the formation of a number of spin-off technology companies including X-Ray Technologies Ltd, Ceramic Fuel Cells Limited and Starpharma Ltd. Dr Dalling was involved in capital raisings for a number of the companies in which he has been involved. In January 2006, he was appointed a Member in the General Division of the Order of Australia for service to the biotechnology industry.	None	Non-executive director and former Chairman of the Audit Committee	1,118,698 shares

* Dr Michael Dalling was a director of the Company up until 8 September 2010 when he passed away.

COUGAR ENERGY LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2011

COMPANY SECRETARY

Ms Sarah Christensen (B.EC, LLB, LLM, MBA) was appointed Company Secretary on 3 September, 2010 following the resignation of Mr Rodney Watson as Company Secretary.

PRINCIPAL ACTIVITIES

During the financial year, the Company's principal activities were (a) the identification and development of underground coal gasification (UCG) projects primarily in The People's Republic of China, Mongolia and Indonesia, and (b) work associated with seeking the approval of the Queensland Government to permit recommencement of UCG trials at the Company's site at Kingaroy .

DIVIDENDS

No dividends or distributions were declared, recommended or paid to members during the financial year (2010: Nil).

REVIEW OF OPERATIONS

The net loss for the Consolidated Group for the financial year after income tax attributable to equity holders of the Parent Entity was \$35,229,788 (2010 loss: \$4,098,768) which was heavily impacted by the impairment of the Kingaroy and other Queensland assets advised in the Half Year accounts at 31 December 2010.

Throughout the financial year, the Company has continued to work to obtain the approval of the Queensland Government to permit the recommissioning of the pilot plant at the Kingaroy site in Queensland. A significant amount of Company resources and expenses have been devoted to this. At the same time a range of other potential project opportunities have been investigated, both in Australia and overseas, to provide scope for diversification of the Company's activities and reduction of its project risk profile. A brief summary of the most prospective of the Company's project opportunities is included in the summary of Company projects presented below.

Kingaroy, Queensland

During the reporting period the Kingaroy site remained subject to the Environmental Protection Order which was formally served on the Company on 17 July 2010. This Order does not permit the Company to conduct gasification activities at the site.

On 28 January 2011 the Queensland Government Department of Environment and Resource Management (DERM) served a Notice of Proposed Action on the Company, proposing to restrict the Company's activities at Kingaroy to decommissioning, rehabilitation and care and maintenance. The Company lodged a submission on 28 February 2011 contesting the proposed orders. After the conclusion of the reporting period of this Annual Report, the Company received a purported Information Notice and amended Environmental Authority requiring the Company to comply with orders as proposed in January 2011. The Company is contesting the amended Environmental Authority.

Further information on this can be found in the section below headed Matters Subsequent to the End of the Financial Year and elsewhere in the Annual Report.

Wandoan, Queensland

Exploration and development work on the Company's tenements at Wandoan for the purposes of UCG projects has been deferred until the Queensland Government's decision on the future of UCG in Queensland, due in June 2012. The Directors have taken a decision to provide for an impairment to the extent of amounts relating to UCG related activities of \$124,447.

Mid West, Western Australia

The Company withdrew from its joint venture with the Eneabba Gas Limited for the establishment of a joint venture to develop a UCG project on the Sargon tenement identified as E70/2758. This decision was taken following changes to the composition of the Board and management of Eneabba Gas Limited as well as decision by the Company to focus its growth strategy on projects in the Asian region.

Latrobe Valley, Victoria

The Company undertook no exploration or development work in respect of the Exploration Licence EL4416 controlled by Ignite Energy Resources Pty Limited during the reporting period. Discussions continue in relation to the formation of a Joint Venture to develop a UCG project on the Licence.

**COUGAR ENERGY LIMITED
DIRECTORS' REPORT (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2011**

REVIEW OF OPERATIONS (CONT'D)

People's Republic of China

In March 2011, the Company entered into co-operation agreements with DeTailong Investment Energy Limited ('DeTailong') to develop the WuNiTe coal deposit in the Inner Mongolia Autonomous Region for UCG activities. DeTailong, on behalf of itself and the Company, is preparing to submit a project development proposal to the responsible local authorities for project registration. The Company is working with DeTailong through the project registration process. The Company continues to evaluate coal resource data received from the Shanghai Limitless Investment Group, to determine suitability to develop UCG sites in the XinJiang Autonomous Region in Western China. The Company has also had meetings with various government and responsible agency officials in Beijing to solicit support for planned activities in XinJiang.

In June 2011 the Company established an office presence in Beijing and appointed Mr Kevin Garner as General Manager – Asia. Mr Garner is responsible for the identification and development of projects in the Asian region, particularly China and Mongolia.

Pakistan

The Company's subsidiary Cougar Energy (UK) Limited continues discussions with potential partners in relation to the proposed development of its Thar Coal Field exploration licence located in the east of Sindh Province.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Contributed equity increased by \$7,678,406 as a result of issues of fully paid shares (210,745,268) during the financial year to sophisticated and institutional investors. These figures do not include 2,058,824 shares issued to Yorkville Associates as payment of the \$70,000 fee for the establishment of the facility with Yorkville.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The following table sets out in chronological order the material events that have occurred since 30 June 2011, involving the Parent Entity and/or its controlled entities. Where possible, the financial impact of each event has also been quantified.

<u>Effective Date</u>	<u>Transaction Details and Financial Impact:</u>
5 July 2011	The Company received a Complaint and Summons from DERM alleging contraventions of the Kingaroy Environmental Authority. The Company will contest each count. Should the Company be found guilty of any count, the maximum fine the court may impose is \$832,500 per count. DERM may also seek, although it has not done so to date, an order that the Company pay rehabilitation, compensation, investigation, court and legal costs to DERM. The Company has accordingly recorded this in Note 29 as a contingent liability.
8 July 2011	The Company received from DERM an amended Environmental Authority dated 7 July 2011 in respect of the Kingaroy site. This document limits the underground gasification activities at the site to decommissioning, rehabilitation, care and maintenance of the site.
2 August 2011	The Company lodged an Application for Internal Review (by DERM) of the decision to issue the amended Environmental Authority. This Application was made in accordance with the Environmental Protection Act 1994 (Queensland).
17 August 2011	The Company has submitted a procedure for the decommissioning and rehabilitation of the underground cavity to DERM for approval. The Company has made a provision for the costs of these works based on the procedure submitted to DERM. The amended Environmental Authority also requires a groundwater monitoring program to be developed and implemented for the site, which the Company has implemented.

**COUGAR ENERGY LIMITED
DIRECTORS' REPORT (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2011**

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Comments on the operations of the Company are referred to in the Managing Director's Report of this Annual Report.

Further information on likely developments in the operations of the Company and the expected results of operations have not been included in this Annual Report because the Directors believe it would be likely to result in unreasonable prejudice to the Company.

ENVIRONMENTAL REGULATION

Reference is made to the Review of Operations and Matters Subsequent to the end of the Financial Year sections in this Annual Report.

MEETINGS OF DIRECTORS

Twenty four (24) Directors' meetings and seven (7) Audit and Risk Committee meetings were held during the financial year ended 30 June 2011.

Director's Name	Full Board		Audit and Risk Committee	
	Number of meetings held whilst in office	Number of meetings attended	Number of meetings held whilst in office	Number of meetings attended
Len Walker ^[1]	24	24	-	-
Malcolm McAully	24	24	7	7
Sarah Christensen ^[2]	16	16	7	7
Michael Dalling ^[3]	5	5	-	-

[1] Dr Walker is not a member of the Audit and Risk Committee.

[2] Ms Christensen was appointed a Director on 22 September 2010.

[3] Dr Dalling passed away on 8 September 2010.

DIVERSITY

The Company strives to create a diverse workforce through:

- Providing equal employment opportunities based on relative ability, performance and potential.
- Maintaining a safe work environment by taking action against discrimination, harassment and vilification.
- Developing flexible work practices to meet the differing needs of employees.
- Applying broad selection criteria for executive and director roles focussing on a range of skills, experience and attributes.
- Engaging external advisers to assist with the recruitment of executive and director roles with regard to the above principles, and to the diversity targets set out below.

The Company aims for at least 20% of director and executive roles to be held by women. It is recognised that the size and nature of the Company's operation may at times make achievement of this target impractical.

The following table sets out the number of female employees within the Company as at 1 July 2010 and 30 June 2011. It is noted that during this period, the Company's Kingaroy project was shut down and as a consequence the Company had to terminate the majority of staff at the project site and in its Brisbane and Melbourne offices. This has affected the Company's diversity targets for the short to medium term.

	30 June 2011			1 July 2010		
	Male	Female	Total	Male	Female	Total
Directors	2	1	3	3	0	3
Executives	5	0	5	6	0	6
Non-executives	2	1	3	16	5	21
Total number	9	2	11	25	5	30
Percentage of Total Employees	81%	19%	100%	83%	17%	100%

**COUGAR ENERGY LIMITED
DIRECTORS' REPORT (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2011**

REMUNERATION REPORT (AUDITED)

This remuneration report, which forms part of the Directors' report, sets out information about the remuneration of the Company's Directors and Executives for the financial year ended 30 June 2011. The information provided within this report has been audited, as required by section 308(3C) of the Corporations Act 2001. The report is set out under the following main headings.

- (A) Principles Used to Determine the Nature and Amount of Remuneration
- (B) Details of Remuneration
- (C) Service Agreements
- (D) Share-Based Compensation
- (E) Additional Information

(A) Principles Used to Determine the Nature and Amount of Remuneration

The objectives of the Consolidated Entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms to market practice. The framework provides for a mix of fixed and long-term incentives in the form of options over unissued ordinary shares in the capital of the Company. As executives gain seniority within the Company, the balance of this mix shifts to a higher proportion of "at risk" long-term rewards. Long-term incentives are provided via the Company's Employees, Officers and Consultant's option plan 2007 (management or remuneration options).

The Company does not have a remuneration committee. The Board is of the opinion that due to the nature and size of the Company, the functions performed by a remuneration committee can be adequately handled by the full Board.

Fees and payments to non-executive directors reflect the demands that are made upon them, and the responsibilities of each director. The board reviews non-executive directors' fees and payments annually. The current base remuneration of directors was last reviewed with effect from 1 July 2009.

(B) Details of Remuneration

The key management personnel of the Group are the directors and the following key management personnel and executives, who report directly to the Managing Director. Profiles of the management personnel (excluding the Managing Director) are:

Andrew Brown, B.Sc, BE (Chem) (Hons), MEngSc, C Eng, RPEQ

General Manager - Technology

Mr Brown is qualified as a Chemical Engineer with a Master of Engineering Science in Advanced Process Design. His working career commenced at ICI Engineering (now Orica) designing and commissioning chemical plants across Australia. He spent 13 years based at the chemical manufacturing facility with Australian Vinyls where he held a range of roles including Operations Manager.

Rajeev Chandra, B.Com, DipProfAccy, ACMA, CPA, CA, MAICD

Chief Financial Officer

Mr Chandra is a Chartered Accountant with 18 years experience having acquired Finance, IT, and commercial management experience in the private and public sectors. His experience includes Chartered Accounting, Education, Health, and the Energy Retail and Distribution industries in Australia and New Zealand. Prior to joining the company in 2010, his previous roles were with a US Fortune 40 Multinational company managing the Finance, IT and commercial functions of one of its Australian divisions including serving operational stints in sales and general management.

Kevin Garner, C Eng, FIMMM, MCIWM

General Manager - Asia

Mr Garner is a Chartered Engineer with over 25 years industry experience in the coal and clean energy sectors working for leading international consulting firm Wardell Armstrong and clean energy developers, Sino Gas and Energy and Sindicatum Carbon Capital. His experience covers all aspects of project origination and execution including the establishment of local resources and in-country capabilities to meet operational delivery needs. In the last 10 years, Mr Garner has worked extensively in China and South East Asia identifying and developing clean energy projects.

**COUGAR ENERGY LIMITED
DIRECTORS' REPORT (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2011**

REMUNERATION REPORT (AUDITED) (CONT'D)

(B) Details of Remuneration (Cont'd)

Brad Glynne, B.Juris, LLB

General Manager – Corporate Finance & Investor Relations

Mr Glynne has over 20 years Australian and international experience in corporate and investment banking as well as managing high net worth investment portfolios. He practised as a solicitor in Melbourne before joining Credit Suisse in Zurich in 1987, where he worked in the capital markets division and later led the commercial & correspondent banking group for South East Asia & Australasia. He returned to Melbourne in 1995 to head Credit Suisse's Corporate Bank team and later the Leveraged & Acquisition Finance Group. Mr Glynne moved to Citigroup in 1998 to establish their Metals & Mining Industry Group, which he led for 6 years. His most recent role prior to joining the Company was as client advisor at UBS Wealth Management.

Valeri Melik, M.Eng, MIEAust, CPEng, NPER, RPEQ

General Manager - Project Services

Mr Melik graduated as an Electrical Engineer from the University of Oil and Chemistry (currently known as the Azerbaijan State Oil Academy) in the former USSR. He successfully completed a post graduate research program in High Voltage Engineering at RMIT University and was admitted to the degree of Master of Engineering. Following an 18 year career practicing as an engineer, Mr Melik has led and managed operations of multiple international teams at Betz Dearborn (automation in water management), Fujitsu (telecommunication/power generation), Autoliv (automotive testing), Downer Engineering (electrical/mechanical/data centres) and Utilacor (electrical/power generation/demand side management).

Total remuneration fell by 9.8% compared to the previous financial year (excluding a termination payment and the payment of unused annual leave paid to former executives John Henderson and Rodney Watson who departed during the reporting period). Based on the same exclusions, cash salaries and compensation (excluding consulting fees paid to Directors) fell by 5% in the reporting period compared with the previous financial year. All key management executives received an increase in cash salary effective 1 January 2011. In approving this increase, the Directors took into account the need to retain key staff whilst the Group is re-positioning the business operations with a strong focus on Asia. The Directors also considered that an increase was appropriate given that some executives had not been granted an increase in salary since commencing employment. There has been no increase in the Directors fees since 1 July 2009.

Name	Position held
Directors	
Len Walker	Managing Director
Malcolm McAully	Non-Executive Director and Chairman of the Board and Audit and Risk Committee
Sarah Christensen	Non-Executive Director and Company Secretary ⁽¹⁾
Executives	
Andrew Brown	General Manager - Technology
Rajeev Chandra	Chief Financial Officer ⁽²⁾
Kevin Garner	General Manager - Asia ⁽³⁾
Brad Glynne	General Manager - Corporate Finance and Investor Relations
Valeri Melik	General Manager - Project Services
Former Directors/ Executives	
Michael Dalling	Non-Executive Director and Chairman of the Audit and Risk Committee ⁽⁴⁾
John Henderson	General Manager – Projects (until 27 August 2010)
Rodney Watson	Company Secretary and Chief Financial Officer (until 3 September 2010)

NOTE: ⁽¹⁾ Ms Christensen was appointed a Director on 22 September 2010.

⁽²⁾ Mr Chandra was appointed Chief Financial Officer on 3 September 2010. He was previously Financial Controller.

⁽³⁾ Mr Garner was appointed on 1 June 2011.

⁽⁴⁾ Dr Dalling passed away on 8 September 2010.

Details concerning the remuneration of the directors of the Company and the other key management personnel of the Group during the financial year ended 30 June 2011 are set out below.

**COUGAR ENERGY LIMITED
DIRECTORS' REPORT (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2011**

REMUNERATION REPORT (AUDITED) (CONT'D)

(B) Details of Remuneration (Cont'd)

Name	Short-Term Employee Benefits	Non Monetary Benefits	Post- Employment Benefits	Share-Based Remuneration	Total Remuneration \$	Relative Proportion Of:	
	Cash Salary and Fees \$	Parking/ Vehicle/Other \$	Super- annuation (#) \$	Management Options \$		Fixed Remuneration %	Performance- Related Remuneration %
2011							
Directors							
Len Walker	250,000	36,789	50,738	-	337,527	100%	-
Malcolm McAully(1)	84,800	-	9,490	-	94,290	100%	-
Sarah Christensen(2)	175,263	-	3,375	-	178,638	100%	-
Executives							
Andrew Brown	215,554	-	25,697	-	241,251	100%	-
Rajeev Chandra	174,856	-	21,231	-	196,087	100%	-
Kevin Garner	18,025	2,884	-	-	20,909	100%	-
Brad Glynne(3)	253,878	-	37,999	21,949	313,826	93%	7%
Valeri Melik	179,375	-	15,199	9,698	204,272	95%	5%
Former Executives							
John Henderson(4)	156,094	5,158	10,672	(32,567)	139,357	123%	-23%
Michael Dalling	-	-	12,500	-	12,500	100%	-
Rodney Watson(5)	58,887	-	2,897	(13,822)	47,962	129%	-29%
Remuneration Totals	1,566,732	44,831	189,798	(14,742)	1,786,619	101%	-1%

(#) The company pays superannuation at the standard 9% . Amounts shown are inclusive of salary sacrifice arrangements by the employee.

(1) Payments to Mr McAully include a consulting fees totalling \$23,800 through MJ McAully Management Consulting.

(2) Payments to Ms Christensen include fees totalling \$137,763 for company secretarial services through Sarjan Consulting Pty Limited, a company of which Ms. Christensen is a Director.

(3) Includes a one off payment of \$66,000 in extinguishment of previous contingent liability regarding performance hurdles for capital raising – see section E.

(4) Includes termination payments of six months equivalent salary under Mr Henderson's service contracts and unused annual leave.

(5) Includes payment of unused annual leave upon resignation.

Comparative:

Name	Short-Term Employee Benefits	Non Monetary Benefits	Post- Employment Benefits	Share-Based Remuneration	Total Remuneration \$	Relative Proportion Of:	
	Cash Salary and Fees \$	Parking/ Vehicle/Other \$	Super- annuation \$	Management Options \$		Fixed Remuneration %	Performance- Related Remuneration %
2010							
Directors							
Len Walker	250,000	31,074	50,000	-	331,074	100%	-
Malcolm McAully	65,000	-	5,850	5,762	76,612	92%	8%
Michael Dalling	-	-	50,000	5,762	55,762	90%	10%
Executives							
Andrew Brown	197,540	-	24,960	11,525	234,025	95%	5%
Brad Glynne	185,739	-	34,261	75,854	295,854	74%	26%
John Henderson	222,039	11,885	14,461	87,307	335,692	74%	26%
Valeri Melik	175,000	-	14,461	33,926	223,387	85%	15%
Rodney Watson	160,000	-	14,400	33,926	208,326	84%	16%
Remuneration Totals	1,255,318	42,959	208,393	254,062	1,760,732	86%	14%

**COUGAR ENERGY LIMITED
DIRECTORS' REPORT (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2011**

REMUNERATION REPORT (AUDITED) (CONT'D)

(C) Service Agreements

The remuneration and other terms of employment for the Managing Director, Chief Financial Officer and other key management personnel have been formalised in service agreements. Each agreement sets out the components of each person's total remuneration package. Typically these components will include a base salary, salary sacrificed superannuation, provision of a motor vehicle and eligibility for participation in the Company's Employees, Officers and Consultants Option Plan 2007. All contracts with executives may be terminated early by either party with typically three months notice, subject to termination payments as detailed below. Other major provisions of the agreements relating to the remuneration of executives for the financial year ended 30 June 2011 are set out below.

Name	Agreement term	Start date	End date	2012 Base salary including super- annuation \$(1)	Other Benefits \$	Notice period required (Months)
Directors						
Len Walker (2)	-	29-09-2006	28-09-2011	301,314	Vehicle	6 months
Executives						
Andrew Brown	n/s	02-07-2007	n/s	241,251	n/s	3 months
Rajeev Chandra (3)	n/s	03-09-2010	n/s	209,816	n/s	3 months
Kevin Garner (4)	3 years	01-06-2011	01-06-2014	219,055	n/s	3 months
Brad Glynn (5)	n/s	04-05-2009	n/s	231,591	n/s	3 months
Valeri Melik	n/s	18-08-2008	n/s	199,525	n/s	3 months

Refer to the preceding pages for the position descriptions of each executive of the Group.

n/s = Not specified in the respective agreement

(1) = Actual Base salary and superannuation covering the actual period of employment to agreement termination.

(2) = Dr Walker's original service agreement, expired on 28th September 2010. A one year contract extension with Dr Walker is in place. Upon expiration and unless terminated it continues indefinitely until renegotiated.

(3) = Mr Chandra is required to give minimum one month's notice of resignation.

(4) = Translated at the foreign currency rate of \$1AUD = 6.8476 RMB at 30 June 2011.

(5) = If the Company undergoes a change of control through a shareholder owning more than 50% of the Company's share capital, the required notice of termination by the company will be extended to twelve months unless mutually agreed otherwise.

(D) Share-Based Remuneration

Management Share Options

American call options over unissued fully paid ordinary shares in the capital of the Company are granted under the Company's Employee, Officers and Consultants 2007 option plan, which was approved by shareholders at the 2007 and 2010 annual general meetings. The option plan is designed to provide long-term incentives for executives and consultants to deliver long-term shareholder returns, but is not linked to the Company's financial or share price performance. Under the plan, eligible participants are granted options, which only vest after certain vesting conditions have been satisfied, and the executives or consultants are still employed by the Group at the end of the vesting period. Participation in the plan is at the Board's discretion. No executive has a contractual right to receive any guaranteed benefits.

The exercise price and vesting conditions are determined by the Company's Directors, in accordance with the plan. All options have a staggered vesting period over three years, typically with one third of the total number of options granted vesting each year on the anniversary of the grant date. The total fair value of these options is being recognised progressively on a pro-rata basis over each options respective vesting period. Once vested, the options remain exercisable until their expiry. The options are granted for no consideration and carry no dividend or voting entitlements. When exercised, each option converts into one fully paid ordinary share in the capital of the Company. The maximum number of unexercised options which can be issued under the plan at any one time is 30 million.

No options were issued to Company Directors or Employees in the 2011 financial period.

**COUGAR ENERGY LIMITED
DIRECTORS' REPORT (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2011**

REMUNERATION REPORT (AUDITED) (CONT'D)

(D) Share-Based Remuneration (Cont'd)

Management Share Options (Cont'd)

Name	Number of option Granted During the Financial Year		Number of Options Vested During the Financial Year		Number of Options Lapsed During the Financial Year	
	2011	2010	2011	2010	2011	2011 (\$)
Directors						
Malcolm McAully	-	-	-	700,000	(2,100,000)	(87,150)
Michael Dalling	-	-	-	700,000	(2,100,000)	(87,150)
Executives						
Andrew Brown	-	-	-	1,400,000	(4,200,000)	(174,300)
Brad Glynne	-	-	1,700,000	1,700,000	-	-
John Henderson	-	4,200,000	-	1,400,000	(4,200,000)	(54,740)
Garry Leblang	-	-	-	800,000	(2,400,000)	(99,600)
Valeri Melik	-	-	800,000	800,000	-	-
Rodney Watson	-	-	800,000	800,000	(2,400,000)	(58,320)
Total Numbers	-	4,200,000	3,300,000	8,300,000	(17,400,000)	(561,260)

* The value at lapse date of options which were granted as part of remuneration and lapsed during the year because a vesting condition was not satisfied. The value determined assumed that the vesting condition was satisfied.

The assessed fair value at grant date of the options granted to the individual executives is allocated on a pro-rata basis over the period from the grant date to the vesting date, and the amounts allocated during the prior financial years have been included in the remuneration table contained within section (B) of this remuneration report. Fair values at grant date have been determined using the Black Scholes option pricing model which takes into account the exercise price, the term of the option, the impact of dilution, the share price at the grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Employee Share Scheme

The Company does not have an employee share scheme.

**COUGAR ENERGY LIMITED
DIRECTORS' REPORT (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2011**

REMUNERATION REPORT (AUDITED) (CONT'D)

(E) Additional Information

The Company's remuneration policy seeks to reward executives for their contribution to achieving significant milestones, but there is no direct link between their remuneration and the Company's financial or share price performance. Notwithstanding this, the following tables provide a five-year summary of the Group's total earnings (prior to adjustments for any minority interests) and movements in shareholder wealth and the remuneration of key management personnel. The information presented, is based on the Company's financial year, which ends on 30 June each year.

Performance Measures	2011 \$	2010 \$	2009 \$	2008 \$	2007 \$
Group Profit/(Loss) Measures					
Revenue	273,020	393,043	400,546	152,870	17,400
Total loss before income tax	(35,985,750)	(4,153,371)	(3,003,477)	(2,274,387)	(1,655,967)
Total loss after income tax	(35,278,576)	(4,153,371)	(3,003,477)	(2,274,387)	(1,655,967)
Key management remuneration	1,786,619	1,717,773	1,288,867	875,078	313,606
Per Share Measures					
Share price at the:					
- Start of the financial year	0.08	0.10	0.16	0.10	0.03
- End of the financial year	0.017	0.08	0.10	0.16	0.10
Dividends paid per share					
				-	-
Earnings/(Loss) per share:					
- Basic	(3.4666)	(0.0048)	(0.0052)	(0.0052)	(0.0050)
- Diluted	(3.4666)	(0.0048)	(0.0052)	(0.0052)	(0.0050)

The service agreement between the Company and Dr Len Walker provides for the payment of a royalty incentive, based upon the energy content of the syngas and/or liquid hydrocarbons generated by any commercial UCG plant that is commissioned by the Company during the term of his service agreement. Reference is made to section (C) of this remuneration report for details concerning the term of Dr Walker's service agreement with the Company. For every gigajoule of energy produced, Dr Walker will be entitled to receive one cent. If a commercial plant's energy producing capacity is expanded (whether prior to or after the termination of Dr Walker's service agreement) then the incentive royalty must be calculated by reference to the expanded production capacity. Dr Walker's royalty entitlement is perpetual and does not cease upon the termination of his service agreement or his death.

The service agreement between the Company and Mr Brad Glynne provided for the payment of certain cash bonuses upon the successful completion of the stage one and two funding for the Kingaroy project. The Board has settled any potential future payments and extinguished this from Mr Glynne's contract.

This is the end of the remuneration report, which has been audited.

**COUGAR ENERGY LIMITED
DIRECTORS' REPORT (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2011**

LOANS TO DIRECTORS AND EXECUTIVES

There were no loans to Directors of the Company or key management personnel of the Company during the financial year.

SHARES UNDER OPTION

Unissued ordinary shares of the Company under option at the date of this report are set out below. No option holder has any right to participate in any other share issue of the Company or any other entity. All options listed below are unlisted securities.

Option Class	Grant Date	Expiry Date	Issue Price of New Shares	Number of Ordinary Shares Under Option
Management	28-Apr-2009	01-May-2012	\$0.10	800,000
Management	28-Apr-2009	01-May-2012	\$0.15	800,000
Management	28-Apr-2009	01-May-2012	\$0.20	800,000
Management	04-May-2009	03-May-2012	\$0.10	1,600,000
Management	04-May-2009	03-May-2012	\$0.15	1,700,000
Management	04-May-2009	03-May-2012	\$0.20	1,700,000
Total				<u><u>7,400,000</u></u>

The grant made on 28 April 2009 was to Mr Valeri Melik and the grant made on 4 May 2009 was to Mr Brad Glynn.

**COUGAR ENERGY LIMITED
DIRECTORS' REPORT (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2011**

INDEMNIFICATION OF OFFICERS

The Company has agreed to indemnify the officers of the Company and its controlled entities to the maximum extent permitted by law, for all liabilities incurred by the officers and all legal and other costs and expenses arising from any proceedings or investigations, incurred by them, as a consequence of them having been an officer of the Company.

INDEMNIFICATION OF AUDITORS

The Company has not, either during or since the end of the financial year provided any indemnities to its auditors in relation to any liabilities incurred by them in relation to the Company.

NON-AUDIT SERVICES

Apart from auditing services, the Company's auditors did not provide any other services to the Company, either during or since the end of the financial year. No amounts were therefore paid or payable to the Company's auditor for any non-audit services.

OFFICERS OF THE COMPANY WHO ARE FORMER AUDIT PARTNERS OF ACCOUNTING FIRM

There are no officers of the company who are former partners of PKF.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required by section 307C of the Corporations Act 2001 follows this report.

AUDITOR

PKF continue in office as the Company auditor in accordance with section 327 of the Corporations Act 2001.

AUDITOR'S OPINION

The opinion is attached and the Directors draw your attention to the Auditor's Opinion.

RESOLUTION OF THE DIRECTORS

This report, is made and signed in accordance with a resolution of directors pursuant to section 298(2) of the Corporations Act 2001.



**Dr Len Walker
Director**

31 August 2011
Melbourne



Chartered Accountants
& Business Advisers

**LEAD AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

**To: The Directors
Cougar Energy Limited and the entities it controlled during the year**

I declare to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit, and
- no contraventions of any applicable code of professional conduct in relation to the audit.

**J A Mooney
Partner
PKF**

31 August 2011
Melbourne

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**COUGAR ENERGY LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011**

The Board of Directors of Cougar Energy Limited is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

COMPLIANCE WITH THE ASX CORPORATE GOVERNANCE COUNCILS PRINCIPLES AND RECOMMENDATIONS

The following table summarises the Company's compliance with the second edition of the ASX Corporate Governance Council's Principles and Recommendations ('ASX Governance Principles').

Principles and Recommendations	Current Practice	Compliance Statement
<u>Principle 1: Lay solid foundations for management and oversight</u>		
1.1 Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	The Board of Directors of Cougar Energy Limited (Board) is responsible for the overall corporate governance of the Company. The Board has adopted a board charter that formalises its roles and responsibilities and defines the matters that are reserved for the Board and specific matters that are delegated to management. A copy of the Board Charter is available on the Company's website.	Complies.
1.2 Companies should disclose the process for evaluating the performance of senior executives.	Given the size of the Company, the Board has visibility of, and discusses, senior executive performance throughout the year. In addition, a formal review of senior executive performance is undertaken by the Managing Director having regard to the views of the Board.	Complies.
1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.	A summary of the board charter is available on the Company's website. The Board conducted performance review processes for senior executives in the manner set out in Principle 1.2.	Complies
<u>Principle 2: Structure the Board to add value</u>		
2.1 A majority of the board should be independent directors.	The majority of the Board's Directors were independent up until the passing of Dr Michael Dalling on 8 September 2010.	Ms Sarah Christensen, who joined the Board on Dr Dalling's passing, is not considered an independent director due to her role as company secretary.

**COUGAR ENERGY LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011**

COMPLIANCE WITH THE ASX CORPORATE GOVERNANCE COUNCILS PRINCIPLES AND RECOMMENDATIONS (CONT'D)

Principles and Recommendations	Current Practice	Compliance Statement
<p><u>Principle 2: Structure the Board to add value (continued)</u></p>		
<p>2.2 The chair should be an independent director.</p>	<p>The Company's chairman is an independent, non-executive director of the Board.</p>	<p>Complies.</p>
<p>2.3 The roles of chair and managing director should not be exercised by the same individual.</p>	<p>The offices of the Company's chairman and managing director are not held by the same individual.</p>	<p>Complies.</p>
<p>2.4 The board should establish a nomination committee.</p>	<p>The Board executes the functions of a nomination committee.</p>	<p>The Board has not established a nomination committee. Given its size, the Board has determined that it will execute the functions of a nomination committee and that a separate committee is unnecessary.</p>
<p>2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.</p>	<p>The Board conducts a self assessment performance review on an annual basis</p>	<p>Complies.</p>
<p>2.6 Companies should provide the information indicated in the Guide to reporting on Principle 2.</p>	<p>A director is considered independent when he or she substantially satisfies the test for independence as set out in the ASX Corporate Governance Principles. Mr Malcolm McAully is considered an independent director of the Company.</p> <p>Members of the Board are able to seek independent professional advice at the expense of the Company when required.</p> <p>Mr Malcolm McAully, non-executive Chairman, was appointed to the Board on 10 December 2002.</p> <p>Dr Len Walker, Managing Director, was appointed to the Board on 9 October 2006.</p> <p>Dr Michael Dalling, AM, non-executive Director and Chairman of the Audit and Risk Committee, was appointed to the Board on 8 May 2007. Dr Dalling passed away on 8 September 2010.</p> <p>Ms Sarah Christensen, a non-executive director, was appointed on 22 September 2010. Ms Christensen is not an independent director due to her role as company secretary.</p> <p>The full Board carries out the functions of a nomination committee.</p> <p>Full details of the Directors is disclosed in the Director's Report contained in this annual report.</p>	<p>Except as outlined above in relation to Principles 2.1 and 2.4, the Company complied with these recommendations during the year ended 30 June 2011.</p>

**COUGAR ENERGY LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011**

COMPLIANCE WITH THE ASX CORPORATE GOVERNANCE COUNCILS PRINCIPLES AND RECOMMENDATIONS (CONT'D)

Principles and Recommendations	Current Practice	Compliance Statement
<p>Principle 3: Promote ethical and responsible decision-making</p>		
<p>3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to the practices necessary to maintain confidence in the company's integrity, the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</p>	<p>The Board has adopted a code of conduct reflecting the guidelines in Principle 3.1.</p>	<p>Complies.</p>
<p>3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of the policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.</p>	<p>The Company has adopted a diversity policy reflecting the guidelines in Principle 3.2.</p>	<p>Complies.</p>
<p>3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.</p>	<p>The Company sets out and reports on its diversity objectives in the Directors' Report contained within this Annual Report.</p>	<p>Complies.</p>
<p>3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.</p>	<p>This information is disclosed in the Directors' Report contained within this Annual Report.</p>	<p>Complies</p>
<p>3.5 Companies should provide the information indicated in the Guide to reporting on Principle 3.</p>	<p>Copies of the code of conduct and diversity policy are available on the Company's website.</p>	<p>Complies.</p>

**COUGAR ENERGY LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011**

COMPLIANCE WITH THE ASX CORPORATE GOVERNANCE COUNCILS PRINCIPLES AND RECOMMENDATIONS (CONT'D)

Principles and Recommendations	Current Practice	Compliance Statement
<p>Principle 4: Safeguard integrity in financial reporting</p> <p>4.1 The board should establish an audit committee.</p> <p>4.2 The audit committee should be structured so that it consists of only non-executive directors, a majority of independent directors, is chaired by an independent chair, who is not the chair of the board and have at least three members.</p> <p>4.3 The audit committee should have a formal charter.</p> <p>4.4 Companies should provide the information indicated in the Guide to reporting on Principle 4.</p>	<p>The Board has established an audit and risk committee to focus on issues relevant to the integrity of the Company's financial reporting.</p> <p>Up until the 8 September 2010 the members of the audit and risk committee were Dr Michael Dalling (chair) and Mr Malcolm McAully. Dr Dalling was an independent, non-executive director and was not the chair of the board. Mr McAully is an independent, non-executive director. Since the passing of Dr Dalling, Ms Christensen has been appointed to the audit and risk committee. The committee now consists of two non-executive directors and Mr McAully has assumed the role of the chairman of the committee.</p> <p>The Board has adopted an audit and risk committee charter, a copy of which is available on the Company's website.</p> <p>The names and qualifications of the members of the audit and risk committee are disclosed in the Directors' Report contained within this Annual Report.</p> <p>The audit and risk committee held seven meetings during the current financial year and meets at least every six months. Both members of the committee attended all meetings.</p>	<p>Complies.</p> <p>Does not comply as the Company's full Board consists of only three members. Since the passing of Dr Dalling on 8 September 2010, Ms Christensen was appointed to the audit and risk committee to maintain the committee numbers. Ms Christensen is a non-executive, but not independent, director.</p> <p>The Board considers it appropriate for the time being that Mr McAully holds the position of chair of the Board and audit and risk committee, given the size of the Board and Mr McAully's financial expertise.</p> <p>Complies.</p> <p>Complies.</p>
<p>Principle 5: Make timely and balanced disclosure</p> <p>5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.</p>	<p>The Company has adopted a continuous disclosure policy, to ensure that it complies with the continuous disclosure regime under the ASX Listing Rules and the Corporations Act 2001.</p>	<p>Complies.</p>

**COUGAR ENERGY LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011**

COMPLIANCE WITH THE ASX CORPORATE GOVERNANCE COUNCILS PRINCIPLES AND RECOMMENDATIONS (CONT'D)

Principles and Recommendations	Current Practice	Compliance Statement
<p><u>Principle 5: Make timely and balanced disclosure (continued)</u></p> <p>5.2 Companies should provide the information indicated in the Guide to reporting on Principle 5.</p>	<p>The Company's continuous disclosure policy is available on the Company's website.</p>	<p>Complies.</p>
<p><u>Principle 6: Respect the Rights of Shareholders</u></p> <p>6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.</p> <p>6.2 Companies should provide the information indicated in the Guide to reporting on Principle 6.</p>	<p>The Company has adopted a shareholder communications policy. The Company uses its website, annual report and periodic announcements and letters to communicate with its shareholders. It also encourages shareholder participation at its general meetings.</p> <p>The Company has adopted a shareholder communications policy, which is available on the Company's website.</p>	<p>Complies.</p> <p>Complies.</p>
<p><u>Principle 7: Recognise and Manage Risk</u></p> <p>7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of these policies.</p> <p>7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.</p> <p>7.3 The board should disclose whether it has received assurance from the managing director (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.</p>	<p>The Company has adopted a risk management policy. The audit and risk committee is responsible for managing risk, however, ultimate responsibility for risk oversight and risk management rests with the full Board.</p> <p>The Company has identified key risks within the business. In the ordinary course of business, management monitors and manages these risks on a regular basis.</p> <p>The Company has a risk register that records the likelihood and consequence of risks within the business and which management uses to monitor material business risks as and when they arise.</p> <p>Management has reported to the Board (through the audit and risk committee) on the effectiveness of the Company's management of its material risks.</p> <p>The Board has received a statement from the Managing Director and Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.</p>	<p>Complies.</p> <p>Complies.</p> <p>Complies.</p>

**COUGAR ENERGY LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011**

COMPLIANCE WITH THE ASX CORPORATE GOVERNANCE COUNCILS PRINCIPLES AND RECOMMENDATIONS (CONT'D)

Principles and Recommendations	Current Practice	Compliance Statement
<p><u>Principle 7: Recognise and Manage Risk (Cont'd)</u></p> <p>7.4 Companies should provide the information indicated in the Guide to reporting on Principle 7.</p>	<p>The Board has adopted a risk management policy, a copy of which is available on the Company's website.</p>	<p>Complies.</p>
<p><u>Principle 8: Remunerate fairly and responsibly</u></p> <p>8.1 The board should establish a remuneration committee.</p> <p>8.2 The remuneration committee should be structured so that is consists of a majority of independent directors, is chaired by an independent chair and has at least three members.</p> <p>8.3 Companies should provide the information indicated in the Guide to reporting on Principle 8.</p> <p>8.4 Companies should provide the information indicated in the Guide to reporting on Principle 8.</p>	<p>The Board has not established a remuneration committee and oversees all matters relating to remuneration.</p> <p>The Board has not established a remuneration committee and oversees all matters relating to remuneration.</p> <p>Due to the explanation given in relation to principle 8.1 above, the Board has not adopted a remuneration committee charter.</p> <p>The functions of a remuneration committee that are carried out by the Board are summarised on the next page.</p> <p>Other than superannuation contributions, the Company's non-executive directors do not receive any other type of retirement benefits. Dr Dalling and Mr McAully were granted options, as explained under principle 8.4 below.</p> <p>The Board has not adopted a remuneration committee charter.</p> <p>The functions of a remuneration committee that are carried out by the Board are summarised on the next page.</p> <p>The guidelines for Principle 8 state that non-executive directors should not receive options or bonus payments. Both Mr McAully and Dr Dalling were granted options over unissued ordinary shares under the Company's Employees, Officers and Consultants 2007 Option Plan. Both the Plan and the options granted to them were approved by shareholders at the Company's annual general meeting held on 23 November 2007.</p> <p>Other than superannuation contributions, the Company's non-executive directors do not receive any other type of retirement benefits.</p>	<p>Does not comply. The Board has not established a remuneration committee. Given its size, the Board has determined that it will execute the functions of a remuneration committee and that a separate committee is unnecessary.</p> <p>Does not comply for the reasons stated above in relation to Principle 8.1.</p> <p>Does not comply for the same reason as that provided for Principle 8.1 above.</p> <p>Does not comply. As the fees paid to the Company's non-executive directors are below normal market rates, options were granted to them as an additional form of remuneration. All options granted vest over a three-year period and have since expired.</p>

COUGAR ENERGY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

	Notes	30 June 2011 \$	30 June 2010 \$
ASSETS			
Current Assets			
Cash and cash equivalents	10	5,043,046	3,862,432
Trade and other receivables	11	146,366	466,283
Other financial assets	12	1,229,539	1,350,000
Total Current Assets		6,418,951	5,678,715
Non-Current Assets			
Other financial assets	12	-	29,076
Exploration and evaluation assets	13	966,052	30,207,398
Investments in joint ventures	6	-	13,490
Property, plant and equipment	14	1,071,020	869,877
Intangible assets	15	595,453	883,963
Total Non-Current Assets		2,632,525	32,003,804
TOTAL ASSETS		9,051,476	37,682,519
LIABILITIES			
Current Liabilities			
Trade and other payables	17	555,713	1,639,663
Provisions	18	1,323,043	186,644
Total Current Liabilities		1,878,756	1,826,307
Non-Current Liabilities			
Borrowings		28,188	41,129
Provisions	18	8,313	552,344
Total Non-Current Liabilities		36,501	593,473
TOTAL LIABILITIES		1,915,257	2,419,780
NET ASSETS		7,136,219	35,262,739
EQUITY			
Contributed equity	19	71,155,209	63,961,812
Unissued equity	20	-	14,400
Reserves		225,839	807,673
Accumulated losses		(64,278,312)	(29,609,785)
Total Equity Attributable to Equity Holders of the Parent Entity		7,102,736	35,174,100
Add minority interests in the net assets of controlled entities		33,483	88,639
TOTAL EQUITY		7,136,219	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 YEAR ENDED 30 JUNE 2011

	Notes	Year Ended 30 June 2011 \$	Year Ended 30 June 2010 \$
REVENUE	5	273,020	393,043
EXPENSES			
Communication costs		208,397	227,214
Depreciation and amortisation		389,772	930,275
Employee benefits expense		1,628,173	1,880,904
Exploration expenses		-	26,176
Finance costs		987	4,601
Insurance expenses		175,259	124,577
Impairment expenses	13	32,238,769	-
Professional fees		1,032,157	562,516
Securities quotation fees		144,061	223,736
Tenancy & Other costs		310,234	341,212
Travel costs		130,961	225,203
Total Expenses		36,258,770	4,546,414
LOSS BEFORE INCOME TAX		(35,985,750)	(4,153,371)
Income Tax Benefit	8	707,174	-
TOTAL LOSS AFTER INCOME TAX FOR THE YEAR		(35,278,576)	(4,153,371)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX			
Movement in exchange in the translation of foreign operations		(12,201)	(5,148)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		(12,201)	(5,148)
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR		(35,290,777)	(4,158,519)
Profit / (Loss) for the year is attributable to:			
Non-Controlling interests		(48,788)	(54,603)
Owners of Cougar Energy Limited		(35,229,788)	(4,098,768)
		<u>(35,278,576)</u>	<u>(4,153,371)</u>
Total comprehensive income for the year is attributable to:			
Non-Controlling interests		(55,157)	(57,305)
Owners of Cougar Energy Limited		(35,235,620)	(4,101,214)
		<u>(35,290,777)</u>	<u>(4,158,519)</u>
		Cents	Cents
Basic earnings per share	24	(3.47)	(0.48)
Diluted earnings per share	24	(3.47)	(0.48)

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 YEAR ENDED 30 JUNE 2011

Consolidated	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 \$	Total Equity \$
Balance 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	-	-	-	(35,229,788)	(35,229,788)	(48,788)	(35,278,576)
Other comprehensive income	-	-	-	-	-	-	-
Movement in the FCTR	-	-	(5,832)	-	(5,832)	(6,369)	(12,201)
Total Comprehensive Income	-	-	(5,832)	(35,229,788)	(35,235,620)	(55,157)	(35,290,777)
<u>Transactions with Owners in their Capacity as Owners</u>							
(a) Contributions by Owners							
New ordinary share issues	7,748,405	-	-	-	7,748,405	-	7,748,405
Unissued Equity	(14,400)	-	-	-	(14,400)	-	(14,400)
Ordinary share issue costs	(555,008)	-	-	-	(555,008)	-	(555,008)
Fair value of shares issued for no consideration	-	-	-	-	-	-	-
Share-based payments	-	(14,742)	-	-	(14,742)	-	(14,742)
Transfer of Reserves	-	-	-	-	-	-	-
Management Options	-	(561,260)	-	561,260	-	-	-
(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	7,178,997	(576,002)	-	561,260	7,164,256	-	7,164,257
Balance at 30-06-2011	71,155,209	257,830	(31,991)	(64,278,312)	7,102,736	33,483	7,136,219

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 YEAR ENDED 30 JUNE 2011

Consolidated	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 \$	Total Equity \$
Balance 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	-	-	-	(4,098,768)	(4,098,768)	(54,603)	(4,153,371)
Other comprehensive income							
Movement in the FCTR	-	-	(2,446)	-	(2,446)	(2,702)	(5,148)
Total Comprehensive Income	-	-	(2,446)	(4,098,768)	(4,101,214)	(57,305)	(4,158,519)
<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
Unissued Equity	14,400	-	-	-	14,400	-	14,400
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	-	260,648	-	-	260,648	-	260,648
(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	-	-	-	-	-	93,486	93,486
Total Transactions with Owners	19,571,780	(722,602)	-	159	18,849,337	93,327	18,942,664
Balance at 30-06-2010	63,976,212	833,832	(26,159)	(29,609,785)	35,174,100	88,639	35,262,739

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 YEAR ENDED 30 JUNE 2011

	Notes	Year Ended 30 June 2011 \$	Year Ended 30 June 2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from rentals		39,349	-
Payments to suppliers and employees		(3,774,390)	(5,045,364)
Interest received		233,538	392,632
Interest paid		-	(4,602)
Income tax refund		706,594	-
Net cash (outflow) from operating activities	22	(2,794,909)	(4,657,334)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds/(Payments) for security deposits on long-term tenancies		29,076	(73)
Payments for property, plant and equipment		(60,715)	(292,778)
Payments for exploration and evaluation assets		(3,468,619)	(13,574,982)
Payments for intangible assets		-	(500,000)
Payments for loans to non-related entities		-	(34,854)
Proceeds/(Payments) for financial assets		120,460	(1,350,000)
Payments for investments in related entities		-	(86,505)
Proceeds of sales from property, plant and equipment		180,624	-
Repayments from Related Parties		-	27,639
Proceeds of Loans from Related Parties		-	87,060
Net cash (outflow) from investing activities		(3,199,174)	(15,724,493)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from ordinary shares issued by the parent entity		7,734,005	16,771,242
Proceeds from the exercising of unlisted vendor options		-	1,725,000
Proceeds from unissued ordinary shares		-	14,400
Payments for share issue transaction costs		(555,008)	(627,121)
Net cash inflow from financing activities		7,178,997	17,883,521
Net increase/(decrease) in cash and cash equivalents		1,184,914	(2,498,306)
Cash and cash equivalents at the beginning of the financial year		3,862,432	6,367,748
Effects of exchange rate changes on cash and cash equivalents		(4,300)	(7,010)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10	5,043,046	3,862,432

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

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: CORPORATE INFORMATION

The financial report of Cougar Energy Limited (the 'Company') for the year ended 30 June 2011 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'.

The principal activities of the Company during the year were related to the commercial development of projects utilising Underground Coal Gasification (UCG) technology.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

These general purpose financial statement have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001. These financial statements also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

The financial statements have been prepared on an accruals basis and are based on the historical costs convention modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied. The financial statements are presented in Australian dollars. In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 9.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a high degree of judgement and complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed further in (b).

Adoption of New, revised or amending Accounting Standards and Interpretations adopted

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2010:

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project.*
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions*
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues*
- AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19*, and
- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project.*

The adoption of these standards did not have material impact on the current or prior period.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Going Concern

The Consolidated Group has incurred a net loss attributable to the owners of Cougar Energy Limited of \$35,229,788 which is inclusive of an impairment charge of \$32,238,769 during the year ended 30 June 2011 (30 June 2010: loss of \$4,098,768) and had cash outflows from operating activities of \$2,794,909 (30 June 2010: outflows of \$4,657,334).

As disclosed previously and elsewhere including Note 30, on 5 July 2011 the Company received a Complaint and Summons from the Queensland Government's Department of Environment and Resource Management ('DERM') alleging contraventions of the Kingaroy environmental authority.

The outcome of this case is presently uncertain. The Directors believe that the timing of bringing these proceedings to a conclusion as well as the outcome cannot be predicted however, the Company will contest each count.

On 19 July 2011 the DERM issued to the Company a purported Information Notice and an amended Environmental Authority in relation to the trial pilot at the Kingaroy site in Queensland.

The Company is currently contesting the issue of the amended Environmental Authority. It has applied for an internal review by DERM pursuant to the Environmental Protection Act 1994 (Queensland). The outcome of this is presently uncertain. The Directors believe that the Company has valid arguments to support the issue of the amended Environmental Authority being reversed.

On 2 February 2011, Yorkville Associates ('YA') advised the Company that while the YA Facility remains on foot, in light of the actions of DERM in continuing to limit the activities of the Company at the Kingaroy site, the Company is not able to draw down funds under the facility.

These matters 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:

- At 30 June 2011, the consolidated entity had cash and cash equivalents of \$5,043,046.
- The Company has prepared cash flow budgets which include significant cash outflows for project expenditure, which can be deferred wholly or in part if insufficient capital is raised to fund that activity.
- Although the YA facility cannot presently be drawn down, YA is prepared to make the Facility available should the Company facilitate the availability of collateral as security through the extension of the share lending arrangement between YA and Innisfree Pty Limited. At the present time, the Company does not need to access the YA Facility for working capital funds.
- The Company continues to receive several equity financing proposals from third parties and may choose to replace the YA Facility with one of the proposed financings in order to access capital.
- The Board is of the opinion that, subject to satisfactory market conditions, the Company will be able to access equity capital markets for working capital.

Should the Company not be able to raise new funds within the next 12 months, this may give rise to a significant doubt on the Consolidated Group being able to continue as a going concern.

Should the Consolidated Group 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 Group not continue as a going concern.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Critical Accounting Estimates and Judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. These estimates and associated assumptions are based on historical experience and other various factors, including expectations of future events management believes to be reasonable under the circumstances. The resulting accounting judgments and estimates will, by definition, seldom equal the related actual results. The judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Share-Based Payment Transactions

The Company measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes Model. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity. The Company measures the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes formula for taking into account the terms and conditions upon which the instruments were granted.

(ii) Recovery of Deferred Tax Assets

Deferred tax assets resulting from unused tax losses are only recognised to the extent that management considers it is probable that future tax profits will be available to utilise the unused tax losses.

(iii) Impairment of Exploration and Evaluation Assets

The Queensland Government's Department of Environment and Resource Management ('DERM') suspended operations at the Kingaroy pilot plant site in July 2010 by operation of an Environmental Protection Order (EPO). Due to the EPO imposed on the Kingaroy site and the serving of a Notice of Proposed Action by DERM on the Company on 28 January 2011, the Company took the decision to impair (write down) the value of the Kingaroy Assets. This was undertaken and disclosed as part of the half year reporting process as at 31 December 2010. Further expenditure incurred at the Kingaroy site between 1 January 2011 and 30 June 2011 has been treated in the same manner as the other Kingaroy assets treated in the half year period.

The Company 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.

After the conclusion of the reporting period for this Annual Report, DERM has issued to the Company an amended Environmental Authority dated 7 Jul 2011 and effective 19 July 2011. The effect of this document is summarised above under the subheading Going Concern. The Company is currently contesting the issue of the amended Environmental Authority. It has applied for an internal review by DERM pursuant to the Environmental Protection Act 1994 (Queensland).

In light of the situation at the Company's Kingaroy Queensland site, the Company has considered likely impairment of its other exploration based asset in Queensland at Wandoan. The assessment has been based on the present situation in relation to the UCG industry in Queensland and the Company being limited in its ability to carry on UCG operations and activities. It has determined and undertaken to impair (write down) the value of the Wandoan exploration assets by \$124,447 being specifically only the portion of UCG related exploration expenditure that has been capitalised but not generic expenditure relating to exploration costs to proving and testing of overall coal resources.

The Company will also consider write up of asset values if alternative uses are found for any appropriate assets.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Critical Accounting Estimates and Judgments (Cont'd)

(iv) Provision for Restoration – Estimate and Classification (Kingaroy)

The Company has in previous reporting periods provided for in the financial statements and classified as a long term liability provision its estimate of the rehabilitation of the surface at Kingaroy as part of the Licence conditions. The Company has assumed, based on current knowledge, that rehabilitation works at surface level at Kingaroy would commence no earlier than 2014, assuming DERM's decision to close down Kingaroy is reversed in the review and appeal processes available to the Company.

At the date of this Annual Report the Company has received notice from DERM that it is to only decommission and rehabilitate the underground cavity at Kingaroy. This does not require any rehabilitation of the site above the surface. The Company is presently challenging this notice received from DERM (as stipulated in an amended Environmental Authority for the Kingaroy site). The outcome of this challenge is not known at this time and remains uncertain.

The Company has submitted a procedure for the decommissioning and rehabilitation of the underground cavity to DERM for approval. The Company has made a provision for the costs of these works based on the procedure submitted to DERM. The amended Environmental Authority also requires a groundwater monitoring program to be developed and implemented for the site, which the Company has implemented. The Company has increased the provision taking into account the possible costs of rehabilitating the underground cavity (not previously included) as well as the increased cost for the surface works. It took advice and estimates from third parties but not DERM when calculating this estimate.

The Company has now listed all of the provision as a current liability, although at this time it is uncertain how much of the works will be required to be completed and the timing of such works as a result of the amended Environmental Authority issued by DERM. Notwithstanding this, the Company has included this as current liability.

(v) Intangible Assets

The Company has previously capitalised (recognised as an intangible asset) the licence fees paid to Ergo Exergy Technologies, Inc. which grants the Company access to the technology partnership arrangements. The Company is of the view that this is a general licence and not site specific and therefore no impairment is required to the current amounts stated in the financial statements.

(vi) Useful lives of assets

The company has made estimates of the useful lives of the plant and equipment and other assets on the basis of assumptions of ongoing projects or transferability to other projects. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated, or technically obsolete or non-strategic assets that have been abandoned will be written off or written down.

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Cougar Energy Limited ("Company" or "Parent Entity") as at 30 June 2011 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in these financial statements as the 'Group' or the 'Consolidated Entity'. Subsidiaries are all those entities (including special purpose entities) over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether control exists.

Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases. The acquisition (purchase) method of accounting is used to account for the acquisition of subsidiaries by the consolidated entity.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Principles of Consolidation (Cont'd)

Inter-company transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of comprehensive income and the statement of financial position of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

(d) Business Combinations

Investments in subsidiaries are accounted for at cost in the separate financial statements of the parent company. Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the consolidated entity in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If, after reassessment, the consolidated entity's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceed the cost of the business combination, the excess is recognised immediately in profit or loss as a bargain purchase.

(e) Impairment of Assets

At each reporting date, the Directors review the carrying values of tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value-in-use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement. The policy as specifically applicable in relation to impairment for exploration assets is discussed at note 2(r).

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. The amount of the impairment write down for assets carried at cost will be expensed through the statement of comprehensive income.

(f) Property, Plant and Equipment

Land and buildings are shown at fair value, based on periodic, at least every 3 years, valuations, by external independent valuers, less subsequent depreciation and impairment for buildings.

Plant and equipment is stated at historical cost less accumulated depreciation and impairment.

(i) Depreciation

The depreciable value of all fixed assets are depreciated on a straight-line basis over their estimated useful lives to the economic entity commencing from the time the asset is held ready for use. The useful lives used for each class of depreciable assets are:

Asset Class	Useful Life (years)
Buildings	10 - 40
Equipment	2 - 10
Office equipment and furniture	2 - 10
Plant	2 - 30

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Financial Instruments

(i) Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss (Statement of Comprehensive Income) immediately. Financial instruments are classified and measured as set out below.

(ii) De-Recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and Subsequent Measurement

Financial Assets at Fair Value through Profit or Loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short-term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss (Statement of Comprehensive Income) in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention and ability to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

(iii) Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

(iv) Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Foreign Currency Translation

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies are translated at the rate of exchange ruling at balance date. Realised and unrealised gains or losses are brought to account in determining the operating results for the period.

(i) Trade and Other Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that Cougar Energy will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the impairment loss is recognised in the income statement within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

(j) Accounts Payable and Accruals

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days.

(k) Revenue Recognition

Interest revenue is recognised on a proportional basis, taking into account the interest rates applicable to the financial assets.

(l) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(m) Income Tax

Income taxes are accounted for using the comprehensive balance sheet liability method whereby:

- (i) the tax consequences of recovering and settling all assets and liabilities are reflected in the financial statements;
- (ii) current and deferred tax is recognised as income or expense except to the extent that the tax relates to equity items or to a business combination;
- (iii) a deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available to realise the asset;
- (iv) deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled; and
- (v) A deferred income tax asset is recognised to record the tax effected value of any unused tax losses.

The company is eligible to participate in the research and development (R&D) tax offset (rebate) scheme to potentially obtain a tax rebate or credits equivalent to the entitlements under the R & D Tax Concession operating at the time. These are only recognised when it is probable that it is to be available to be offset against future profits or actual cash payment is received.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except: (i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense ; or (ii) for receivables and payables which are recognised inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(o) Issued Capital

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

(p) Share-Based Payment Transactions

Equity-Settled Transactions

The Group provides benefits in the form of share-based payments to Directors and senior executives. These personnel 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 of the equity instruments at the date at which they are granted. The fair value of options over unissued ordinary shares was determined using a Black-Scholes options pricing model.

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) if applicable. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the 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 date has expired, and
- (ii) the Group's best estimate of the number of equity instruments that will ultimately vest.

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.

The income or expense for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If 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 modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If 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.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (refer to note 24 below).

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Exploration and Evaluation Assets

Costs incurred during the exploration, evaluation and development stages of specific areas of interest are capitalised. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific nexus with a particular area of interest.

Expenditure is carried forward as an asset where it is expected to be fully recouped through the successful development of the area, or where activities to date have not yet reached a stage to allow adequate assessment regarding existence of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest the carrying amount exceeds recoverable amount. Such facts and circumstances which may lead to an impairment evaluation include: expiration of the rights of tenure; there are no future plans for further expenditure; sufficient data exists which indicates the project is not commercially viable; development is unlikely to recover the full carrying value of exploration and evaluation. Recoverable amount is calculated as the higher of fair value less cost to sell and value-in-use. Recoverable amount may be calculated with reference to the cashflows from successful development and commercial exploitation, or alternatively, sale of respective areas.

No amortisation is provided in respect of projects in the exploration, evaluation and development stages until they are reclassified as production properties.

(r) Intangible Assets

All intangible assets are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over its estimated life. Amortisation commences when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The amortisation period and the amortisation method for an intangible asset is reviewed at least at the end of each reporting period. If the expected useful life of the asset is different from the previous estimates, the amortisation shall be changed accordingly. Such changes are accounted for as changes in accounting estimates.

(s) Rehabilitation and Restoration Costs

Significant uncertainty exists as to the amount of rehabilitation obligations that will be incurred due to the impact of changes in environmental legislation and many other factors, including future developments on projects, changes in technology, price increases and changes in interest rates which may impact the discounting of future cash flow caused by such activities.

The amount of the provision relating to rehabilitation of UCG infrastructure and dismantling obligations is recognised at the construction of the assets where a legal or constructive obligation exists at that time. The provision is recognised as a current or non-current liability as appropriate.

At each reporting date, the rehabilitation liability is remeasured in line with changes in discount rates and timing or amounts of the costs to be incurred. Rehabilitation and restoration provisions are adjusted for changes in estimates. Adjustments to the estimated amount and timing of future rehabilitation and restoration cash flows are a normal occurrence in light of the significant judgements and estimates involved. Changes in the liability relating to rehabilitation of UCG infrastructure and dismantling obligations are added to or deducted from the related asset other than the unwinding of the discount which is recognised as a finance cost in the income statement.

Restoration costs recognised in respect of areas of interest in the exploration and evaluation stage are carried forward as exploration, evaluation and development expenditure.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(t) Leases

Leases of property, plant and equipment where the company as lessee, has substantially all the risks and benefits incidental to ownership of the asset, are classified as finance leases. Finance leases are capitalised, and recorded as an asset and a liability equal to the present value of the minimum lease payments, including any residual payments as determined by the lease contract. Leased assets are amortised on a straight-line basis over the estimated useful lives where it is likely that the Company or consolidated entity will obtain legal ownership of the asset on expiry of the lease. Lease payments are allocated over both the lease interest expense and the lease liability.

Lease payments for operating leases where the substantial risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(u) Non-Current Assets (or Disposal Groups) Held for Sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less selling costs, except for those assets that are specifically exempted from this requirement.

(v) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of twelve months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the Statement of Financial Position.

(w) Employee Benefits

Liabilities for services rendered by employees such as wages and salaries, including non monetary benefits are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(i) Long Service Leave

The liability for long service leave is recognised in the non-current provisions for employee benefits and is measured as the present value of expected future payments to be made in respect of services provided by employees up until the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 3: CONTROLLED ENTITIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2. Cougar Energy Limited's direct and indirect ownership interests in each its subsidiaries is set out below. Whilst Cougar Energy Limited only has a 47.80% (2010: 47.80%) interest in Cougar Energy (UK) Limited, it still retains effective control of that entity from a consolidation point of view by virtue of the fact that the Company has received qualified undertakings from directors and shareholders common to both companies that they will vote on any resolutions put to members of Cougar Energy (UK) Limited in the same way that Cougar Energy Limited votes. These undertakings are qualified to the extent that the relevant parties are only prepared to vote the same way as Cougar Energy Limited up until such time as Cougar Energy (UK) Limited has arranged its own external financing, which could possibly include a separate capital raising and stock exchange listing. At the date of this report, Cougar Energy (UK) Limited has not completed any such financing arrangements and accordingly, Cougar Energy Limited remains in control of Cougar Energy (UK) Limited. As a result, Cougar Energy (UK) Limited has been consolidated with Cougar Energy Limited in these financial statements for both financial years presented.

Name of Controlled Entity	Date of Incorporation	Country of Incorporation	Class of Equity held	Parent Entity's Equity Holdings (*) in Controlled Entities as at:	
				30 June 2011 %	30 June 2010 %
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.

Parent Entity

Cougar Energy Limited is the parent entity for all of the entities listed above. It has no immediate or ultimate parent entity.

NOTE 4: FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group's overall risk management strategy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure the different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk. The Board of the Parent Entity reviews and approves policies for managing each type of financial risk to which the Group is exposed. A summary of the Group's financial instruments is set out below.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 4: FINANCIAL RISK MANAGEMENT (CONT'D)

	Notes	Consolidated Group	
		2011	2010
		\$	\$
Financial Assets			
Cash and cash equivalents	10	5,043,046	3,862,432
Trade and other receivables	11	146,366	466,283
Other financial assets	12	1,229,539	1,379,076
Total Financial Assets		6,418,951	5,707,791
Financial Liabilities			
Borrowings		28,188	41,129
Trade and other payables	17	555,713	1,639,663
Total Financial Liabilities		583,901	1,680,792
Net Financial Assets		5,835,050	4,026,999

(a) Market Risk

(i) Foreign Currency Risk

Currency risk involves the risk that the fair value or future cash flows of a financial instrument (asset or liability) will fluctuate because of changes in foreign exchange rates. Controlled entities within the company operate internationally and are exposed to foreign exchange risk arising from various currency exposures, but primarily with respect to the United Kingdom's pound (GBP) and the Pakistani Rupee (PKR). The company's foreign exchange risk arises from future commercial transactions and recognised assets and liabilities of controlled entities that are not denominated in the Parent Entity's functional and presentation currency, being Australian dollars (AUD). As a result of these overseas operations, the company's results can be affected by movements in the GBP/AUD and PKR/GBP exchange rates. The company does not have a formal policy or strategy implemented to mitigate the effects of this foreign currency exposure. The majority of the Group's foreign currency operations occur within controlled entities located in foreign countries, foreign currency risk is considered to be an inherent risk of the Group. The Group's exposure to foreign currency risk at the reporting date, expressed in Australian dollars (AUD) is set out below. Due to the recent appreciation of the AUD a rate of 15% has been applied to the current and prior year.

	Primary Currency Exposure	Consolidated Group	
		2011	2010
		\$	\$
Financial Assets			
Cash and cash equivalents	GBP	47,634	121,885
Trade and other receivables	GBP	10,434	-
Trade and other receivables	PKR	80	22,204
Other financial assets	GBP	1,969	2,353
Total Financial Assets		60,117	146,442
Financial Liabilities			
Current provisions	GBP	-	580
Total Financial Liabilities		-	580
Net Financial Assets exposed to Foreign Currency Risk		60,117	147,022

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 4: FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Market Risk (Cont'd)

	Primary Currency Exposure	Notes	Consolidated Group	
			2011 \$	2010 \$
Sensitivity Analysis				
Effect on Loss after Income Tax				
Higher / (Lower)				
15% increase in exchange rates	GBP		-	-
	PKR		-	-
15% decrease in exchange rates	GBP		-	-
	PKR		-	-
Effect on Equity				
Higher / (Lower)				
15% increase in exchange rates	GBP		9,005	(1,510)
	PKR		12	(303)
Total effect of an increase in rates			9,017	(1,813)
15% decrease in exchange rates	GBP		(9,005)	(33,060)
	PKR		(12)	(6,630)
Total effect of an decrease in rates			(9,017)	(39,690)

Rates are recorded in a foreign currency translation reserve which forms part of the Group's total equity upon consolidation.

(ii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument (asset or liability) will fluctuate because of changes in market interest rates. The Group's main exposure to interest rate risk stems from its cash balances (including term deposits) and short-term borrowings. The Group's cash balances and short-term borrowings are subject to variable rates and expose the Group to cash flow interest rate risk. The Group's term deposits whilst subject to fixed rates have also been treated as though they are subject to variable rates, as each deposit is fixed typically for no more than three months. Given the relatively short period that these deposits are invested for, the Group's exposure to fair value interest rate risk is minimal. As at the reporting date, the Group therefore had the following variable rate cash balances and borrowings.

	Notes	Consolidated Group	
		2011 \$	2010 \$
Financial Assets			
Cash and cash equivalents	10	5,043,046	3,862,432
Other financial assets (term deposits)	12	1,215,000	1,350,000
Total Financial Assets		6,258,046	5,212,432
Financial Liabilities			
Borrowings		28,188	41,129
Total Financial Liabilities		28,188	41,129
Net Financial Assets Exposed to Cash Flow Interest Rate Risk		6,229,858	5,171,303

Sensitivity Analysis

Effect on Loss after Income Tax – Higher/(Lower)

1% increase in interest rates	62,299	51,713
1% decrease in interest rates	(62,299)	(51,713)

Effect on Equity – Higher/(Lower)

1% increase in interest rates	62,299	51,713
1% decrease in interest rates	(62,299)	(51,713)

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 4: FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Market Risk (Cont'd)

The equity account affected by the above movement in interest rates is accumulated losses.

The Group constantly analyses its interest rate opportunity and exposure, taking into account its existing positions and alternative deposit strategies using a combination of fixed and variable interests rates. The movement in losses after income tax is due to the higher/lower amount of interest received. As the Group does not have any derivative financial instruments, the movements in equity relate solely to accumulated losses. A one percent (1%) movement in interest rates has been selected because this is historically within the range of interest rate movements experienced by the Group. The same interest rate movement has been applied to all deposit amounts, including those denominated in foreign currencies.

(iii) Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Apart from the foreign currency and interest rate risks identified above, the Group does not have exposure to any other types of market price risk.

(b) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk therefore, arises from the financial assets of the Group, which comprise its cash and cash equivalents and its trade and other receivables. The Group's exposure to credit risk arises from the potential default of a counter party, with its maximum exposure being equal to the carrying amount of the respective financial assets identified at the start of this financial risk management note. The Group also faces credit risk in relation to the financial guarantees it has given to certain parties. All guarantees are secured by letters of set-off over term deposits pledged as security to potentially meet any of these guarantees. The guarantees will only become payable if the Group fails to fulfil its obligations to those third parties to whom they have been given.

The Parent Entity has made loans to certain controlled entities to fund UCG project development. Unless a determination is made that any of these projects are not viable, all inter-group loans are considered recoverable. No interest is charged on these loans. The Group does not hold any credit derivatives to offset its credit exposure. The Group's exposure to credit risk as at the reporting date, is identified in each applicable note to these financial statements. The Group does not have any significant concentrations of credit risk.

(c) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities. In relation to the Consolidated Group, liquidity risk is the risk that the Group, although balance sheet solvent, cannot meet or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so on materially disadvantageous terms.

Ultimate responsibility for liquidity risk management rests with the board of directors, who have developed an appropriate 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 capital raising initiatives based on continuous monitoring of forecast and actual cash flows.

(i) Financing Arrangements

Apart from a corporate credit card facility, with a maximum limit of \$30,000 (2010: \$130,000), the balance of which is direct debited to a nominated bank account each month, the Group does not have any undrawn borrowing facilities at the end of each financial year. The credit card facility is secured by a letter of set-off over a term deposit for an amount that corresponds with the facility limit. The Company has in place an equity financing facility with YA, which can be accessed as long as collateral is offered as security. The Company does not currently need access to this facility for working capital funding.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 4: FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity Risk (Cont'd)

(ii) Maturities of Financial Liabilities

All of the financial liabilities presented below mature within twelve months from the end of each financial year. The amounts represent the contractual undiscounted cash flows required to be made.

	Notes	Consolidated Group	
		2011	2010
		\$	\$
Financial liabilities			
Trade and other payables	17	555,713	1,639,663
Borrowings		28,188	41,129
Total financial liabilities subject to liquidity risk		583,901	1,680,792

(d) Fair Value of Financial Instruments

Fair value is the amount for which, an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The carrying value of each class of financial asset and liability presented at the start of this financial risk management note, is assumed to approximate its fair value due to the short-term nature of all of those assets and liabilities. The methods used for estimating their fair value has been outlined in the relevant notes to these financial statements.

	Notes	Consolidated Group	
		2011	2010
		\$	\$

NOTE 5: REVENUE

Revenue from Continuing Operations

Interest received	233,538	392,581
Rental Income	39,349	-
<u>Other Revenue</u>		
Unrealised gain on foreign currencies	133	462
Revenue	273,020	393,043

NOTE 6: INVESTMENTS IN NON CONTROLLED ENTITIES

Name of associate or joint venture entity	Queensland Methane 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	N/A

The joint venture arrangement with Cougar Direct Invest China Limited expired during the period. The joint venture arrangement with Eneabba Gas Limited (ASX:ENB) was terminated. The Joint venture with Pakistan General Partnership (PGP) was mutually terminated and the amount of \$13,490 written off in relation to expenses related to PGP.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

	Notes	Consolidated Group	
		2011	2010
		\$	\$

NOTE 7: EXPENSES

(a) Loss before Income Tax from Continuing Operations includes the following specific expenses:

Depreciation of property, plant and equipment		155,928	88,854
Amortisation of intangible assets		207,474	841,512
<u>Employee Expenses</u>			
Contributions to accumulated superannuation funds		278,870	352,909
Share-based Payments		(14,742)	255,309
<u>Rental expense relating to operating leases</u>			
Minimum lease payments		217,725	223,619
<u>Assets written off or disposed</u>			
Property, plant and equipment		224,402	34,397

NOTE 8: INCOME TAX EXPENSE

(a) Income Tax Benefit (Expense)

Current income tax		707,174	-
Deferred income tax expense		-	-
Income Tax Benefit		707,174	-

Deferred income tax expense included in the total income tax expense is comprised of:

(Decrease)/increase in deferred tax assets		-	-
(Decrease)/increase in deferred tax liabilities		-	-
Total Deferred Income Tax Expense		-	-

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

	Notes	Consolidated Group	
		2011	2010
		\$	\$
NOTE 8: INCOME TAX EXPENSE (Cont'd)			
<u>(b) Numerical Reconciliation of Income Tax Expense to Prima Facie Tax Payable</u>			
Loss from continuing operations		(35,985,750)	(4,153,371)
Total loss before income tax for the year		<u>(35,985,750)</u>	<u>(4,153,371)</u>
Tax at the Australian tax rate of 30% (2010: 30%)		(10,795,725)	(1,246,011)
Add/(less) the tax effect of amounts which are not deductible/(assessable) in calculating taxable income:			
Amortisation of key employment contracts		63,209	252,426
Entertainment expenses		3,105	3,742
Fines and penalties		-	86
Share-based payments		(4,423)	78,194
Share issue costs recognised directly in equity		(97,189)	(42,413)
Impairment of exploration assets		9,665,314	-
Deferred tax assets not brought to account		1,163,835	951,835
		<u>(1,874)</u>	<u>(2,141)</u>
Differences in overseas corporate tax rates		1,874	2,141
R&D tax offset received		(707,174)	-
Total income tax (benefit)/expense		<u>(707,174)</u>	<u>-</u>
<u>(c) Unused Tax Losses Not Recognised as a Deferred Tax Asset</u>			
Taxable value of unused tax losses for which no deferred tax asset has been recognised:			
Tax losses on capital account		450,174	450,174
Tax losses on revenue account		9,979,790	16,068,440
Total unrecognised tax losses carried forward		<u>10,429,964</u>	<u>16,518,614</u>
Potential tax benefit of losses @ 30% (2010: 30%)		<u>3,128,989</u>	<u>4,955,584</u>

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

	Notes	Consolidated Group	
		2011	2010
		\$	\$
NOTE 8: INCOME TAX EXPENSE (Cont'd)			
<u>(d) Unrecognised temporary differences in relation to investments in controlled entities</u>			
Taxable value of temporary differences relating to investments in controlled entities for which no deferred tax assets or liabilities have been recognised:			
Foreign currency translation reserve		(31,991)	(26,159)
Undistributed losses		(679,671)	(621,976)
Total unrecognised temporary differences (Deferred Tax assets)		(711,662)	(648,135)
Potential tax asset / (liability) relating to unrecognised temporary difference @ 30% (2010: 30%)		213,499	194,441

A deferred tax asset has not been recognised in relation to temporary differences arising from the translation of the financial statements of overseas controlled entities. The deferred tax asset will only arise in the event of the disposal of these entities.

The Group's controlled entities also have undistributed losses. As the Parent entity controls the distribution of these losses, no deferred tax asset has been recognised as it is not expected to distribute these losses in the foreseeable future.

(e) Australian tax consolidation legislation

The Parent Entity and its Australian controlled entities have been consolidated for income tax purposes. The entities involved in this consolidation have not entered into any tax funding arrangements. There were no tax-consolidated contributions by (or distributions to) equity participants within the tax consolidated group during the financial year.

NOTE 9: PARENT ENTITY INFORMATION

As at and throughout the year the financial year ending 30 June 2011 the parent company of the Group was Cougar Energy Limited. The financial position and result of the parent entity are detailed below.

	2011	2010
	\$	\$
Information relating to Cougar Energy Ltd:		
Current assets	6,346,264	5,534,464
Total assets	9,481,065	37,448,950
Current liabilities	1,878,756	2,371,710
Total liabilities	1,887,070	2,379,231
Issued capital	71,155,209	63,961,812
Retained earnings	(63,806,470)	(29,713,538)
Total shareholders' equity	7,606,568	35,096,505
Profit or loss of the parent entity	34,654,192	4,207,347
Total comprehensive income of the parent entity	34,654,192	4,207,347

Parent Entity Contingencies and Commitments

The Parent Entity contingent liabilities are consistent with Note 29.

Expenditure Commitments

The Parent Entity expenditure commitments are consistent with the commitments disclosed in Note 28.

Parent Entity Guarantees in respect of Debt of its Subsidiaries

The Parent Entity has no guarantees in respect of its subsidiaries

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

	Notes	Consolidated Group	
		2011	2010
		\$	\$
NOTE 10: CASH AND CASH EQUIVALENTS			
Cash at bank and on hand		4,268,021	2,899,432
Term deposits securing bank guarantees given	(a)	775,025	963,000
Total cash and cash equivalents		5,043,046	3,862,432

Term deposits securing Bank Guarantees

The Group has provided bank guarantees for landlord security, rehabilitation costs, power line installations and a credit card facility equal in value to the amount shown in term deposits and recorded as current assets above. These guarantees are secured by letters of set off over the term deposits shown in the statements as current assets. The term deposits have been split in order of liquidity (being defined as ease of convertibility to cash):

- (a) The term deposits totalling \$775,025 being included as part of cash and cash equivalents in the Statement of Cashflows.
- (b) Term deposits totalling \$1,215,000 whilst still a short-term deposit and classed a current asset is treated as less liquid and is not included in the cash balance within the Statement of Cashflows and classed as Other Financial Assets. This is done on the basis that the term deposit is securing a bank guarantee that could potentially require considerably longer (likely more than three months but less than 12 months) to unwind and negotiate alternate arrangements and therefore take longer to convert the term deposit to cash.

NOTE 11: TRADE AND OTHER RECEIVABLES

Other receivables		26,079	48,257
Interest receivable		-	-
Prepayments		62,465	75,818
Goods and Services Tax (GST) recoverable		57,822	342,208
Total trade and other receivables		146,366	466,283

Trade and other Receivables

These amounts generally arise from transactions outside the usual operating activities of the Group. Interest may be charged at commercial rates where the terms of repayment exceed six months. Security is not normally obtained.

NOTE 12: OTHER FINANCIAL ASSETS

Current Assets

Security/rental tenancy deposits		14,539	-
Term deposits securing bank guarantees given	10 (b)	1,215,000	1,350,000
Total Current Assets		1,229,539	1,350,000

Non-Current Assets

Security/rental tenancy deposits		-	29,076
Total Non Current Assets		-	29,076
Total other financial assets		1,229,539	1,379,076

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

	Consolidated Group	
	2011	2010
	\$	\$
NOTE 13: EXPLORATION AND EVALUATION ASSETS		
(a) Kingaroy, Qld UCG Project		
Cost at the start of the financial year	29,207,398	12,382,627
Reclassification of assets from Property Plant & Equipment	(541,923)	-
Additional expenditure	3,448,847	16,824,771
Impairment charge for the period	(32,114,322)	-
Cost at the end of the financial year*	-	29,207,398
(b) Wandoan, Qld UCG Project		
Cost at the start of the financial year	900,410	523,485
Additional expenditure	88,533	376,925
Impairment charge for the period	(124,447)	-
Cost at the end of the financial year	864,496	900,410
(c) Thar Desert Project, Pakistan		
Cost at the start of the financial year	99,590	-
Additional expenditure	5,952	99,590
Translational loss	(7,350)	-
Cost at the end of the financial year	98,192	99,590
(d) Mackenzie, Qld		
Cost at the start of the financial year	-	-
Additional expenditure	3,364	-
Cost at the end of the financial year	3,364	-
Total exploration and evaluation assets	966,052	30,207,398
(*) Composition of Kingaroy UCG Assets		
Pilot Plant	-	14,051,956
Undergrounding and Evaluation assets	-	15,155,442
Kingaroy UCG Assets	-	29,207,398

The Company is required under the Accounting Standard 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.

Exploration and development work on the Company's tenements at Wandoan for the purposes of UCG projects has been deferred until the future of the Kingaroy site has been finally determined. The Queensland Government's decision on whether UCG projects will be permitted to proceed to commercial scale (to be taken in 2012 under its UCG Policy) will also affect the development of the tenements. The Company has taken the decision to provide for an impairment to the extent of amounts relating to UCG specific activities at Wandoan.

The company has lodged a submission with the Queensland Government contesting the proposed action at Kingaroy. Should the Company be successful or alternative uses found for any assets, the Board will consider reversing the impairment charge.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 13: EXPLORATION AND EVALUATION ASSETS (CONT'D)

(e) UCG Tenements Licence Holder	Licence Number	Projects Location	Grant Date	Equity Interest (%)	
				2011	2010
Cougar Energy Limited	MDL 385	Kingaroy	24-09-2009	100%	100%
Cougar Energy UCG Pty Ltd (CEUCG)	EPC 1118	Wandoan	24-07-2008	100%	100%
Cougar Energy Limited	MDLA 420	Wandoan	Pending	99%	99%
Cougar Energy UCG Pty Ltd	MDLA 420	Wandoan	Pending	1%	1%
Cougar Energy Limited	EPC 1445	Mackenzie	29-06-2011	100%	-

Legend:

EPC = Exploration Permit for Coal

MDL = Mineral Development Licence

MDLA = MDL Application

Kingaroy, Queensland, Australia

On 26 August 2009, DERM granted the addition of mineral "f" to CXY's MDL 385. Mineral "f", is defined as "...a product that may be extracted or produced by an underground gasification process for coal or oil shale and any other product that may result from the carrying out of the process". The mineral "f" endorsement is required to permit the Company to carry out its pilot burn under MDL 385. Currently the plant operations have been suspended by DERM as noted elsewhere. DERM has issued an amended Environmental Authority which has the effect of placing the site on care and maintenance. The Company is currently contesting the issue of this amended Environmental Authority. The Company also relinquished its application MDLA 421 at Kingaroy on 3 March 2011.

Wandoan, Queensland, Australia

On 24 July 2008 CEUCG was granted EPC 1118. On 11 August 2009 CEUCG applied for MDL 420 to cover all but three sub-blocks in the North-West of its EPC 1118.

Mackenzie, Queensland, Australia

On 29 June 2011 Cougar Energy Limited was granted EPC 1445 over 7 standard sub-blocks with a total area of 23.8 square Kilometres near Mackenzie Queensland. The tenancy term is three years and the land does not include any protected areas as defined under the Mineral Resources Act 1989.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 14: PROPERTY, PLANT AND EQUIPMENT

	Office Equipment & Furniture \$	Plant & Equipment \$	Land & Buildings \$	Total Depreciable Assets \$
<u>2011 FINANCIAL YEAR</u>				
<u>Cost</u>				
Cost at the start of the year	310,274	196,224	500,864	1,007,362
Additions	25,601	13,829	-	39,430
Disposals	(15,731)	(166,124)	-	(181,855)
Assets written off	-	-	(41,776)	(41,776)
Reclassification of assets from exploration and evaluation assets	-	541,923	-	541,923
Cost at the end of the year	320,144	585,852	459,088	1,365,084
<u>Accumulated Depreciation</u>				
Depreciation at the start of the year	75,349	49,234	12,289	136,872
Disposals	681	-	-	681
Charge for the year	79,629	67,126	9,173	155,928
Foreign currency translation adjustments	-	583	-	583
Depreciation at the end of the year	155,659	116,943	21,462	294,064
Net book value at the end of the year	164,485	468,909	437,626	1,071,020
<u>2010 FINANCIAL YEAR</u>				
<u>Cost</u>				
Cost at the start of the year	78,955	148,265	532,765	759,985
Additions	232,229	51,920	-	284,149
Assets written off	-	(2,496)	(31,901)	(34,397)
Foreign currency translation adjustments	(910)	(1,465)	-	(2,375)
Cost at the end of the year	310,274	196,224	500,864	1,007,362
<u>Accumulated Depreciation</u>				
Depreciation at the start of the year	17,075	20,925	3,116	41,116
Assets written off	-	-	-	-
Charge for the year	58,782	29,458	9,173	97,413
Foreign currency translation adjustments	(508)	(536)	-	(1,044)
Depreciation at the end of the year	75,349	49,848	12,289	137,485
Net book value at the end of the year	234,925	146,376	488,575	869,877

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Consolidated Group
2011 **2010**
\$ **\$**

NOTE 15: INTANGIBLE ASSETS

(a) Key Employment Contracts

Cost at the start of the year	3,367,988	3,367,988
Additions	-	-

Cost at the end of the year	3,367,988	3,367,988
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Accumulated Amortisation

Amortisation at the start of the year	3,160,514	2,319,003
Charge for the year	207,474	841,511

Amortisation at the end of the year	3,367,988	3,160,514
--------------------------------------------	------------------	------------------

Net book value at the end of the year	-	207,474
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(b) UCG Technology General Licence

Cost at the start of the year	750,000	250,000
Additions	-	500,000

Cost at the end of the year	750,000	750,000
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Accumulated Amortisation

Amortisation at the start of the year	73,510	16,429
Charge for the year	81,037	57,081

Amortisation at the end of the year	154,547	73,510
--------------------------------------------	----------------	---------------

Net book value at the end of the year	595,453	676,490
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Total net book value of all intangible assets	595,453	883,963
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(c) Descriptions

Key employment contracts represent the value that controlled entities have placed on the future economic benefits they expect to receive from Dr Len Walkers' accumulated UCG-related knowledge, expertise and industry contracts. These benefits, which in no way accrue to Dr Walker, were amortised over the four-year life of his *original* employment contract, which expired on 29 September 2010 (and since has been extended).

UCG technology general licence fees represent the fees paid to Ergo Exergy Technologies, Inc (Ergo) for Cougar Energy Limited to use Ergo's UCG technology and know-how in Australia and other countries, following the signing of a General Licence Agreement on 3 November 2008. All general licence fees incurred are amortised over the ten-year period commencing on 3 November 2008. The amortisation charges are capitalised as part of plant under construction and are allocated equally across all active UCG projects.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

	Consolidated Group	
	2011	2010
Notes	\$	\$
NOTE 16: RELATED PARTY DISCLOSURE		
a) Loans to Controlled Entities		
Balance at the start of the financial year	260,651	169,939
- Cougar Energy UCG Pty Ltd	-	8,195
- Cougar Energy UK Ltd	13,342	82,517
Total loans to controlled entities	273,993	260,651

Loans to controlled entities are made in the ordinary course of business, are non-interest bearing and are for an indefinite period.

b) Investments in Controlled Entities

Unlisted shares in controlled entities	(i)	6,052,761	6,052,761
Less allowance for impairment	(ii)	(5,724,451)	(3,547,898)
		328,310	2,504,863

(i) Movement in Investment in controlled entities

Balance the start of the financial year	6,052,761	5,974,451
Cougar Energy UK rights Issue	-	78,310
	6,052,761	6,052,761

(ii) Movement in the Impairment Allowance

Balance at the start of the financial year	(3,547,898)	(2,547,898)
Allowance for the year	(2,176,553)	(1,000,000)
Balance at the end of the financial year	(5,724,451)	(3,547,898)

Other Transactions and Balances with Key Management Personnel

A Director, Ms Sarah Christensen, is a Director of Sarjan Consulting Pty Limited through which Ms Christensen provides company secretarial services to the Company. The agreement provides for a daily rate on commercial terms agreed prior to the appointment of Ms Christensen to the Board.

An entity associated with the Chairman, Mr Malcolm McAully provided management consulting services to the Company in relation to the work carried out with PricewaterhouseCoopers Securities Limited. The terms were agreed by the Board.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

	Consolidated Group	
	2011	2010
Notes	\$	\$
NOTE 17: TRADE AND OTHER PAYABLES		
Trade creditors	471,988	879,971
Other creditors	8,214	466,886
Accrued expenses	29,000	34,000
Payroll-related creditors	46,511	258,806
Total Trade and Other Payables	555,713	1,639,663
NOTE 18: PROVISIONS		
(a) Current Liabilities		
Provision for employee benefits (annual leave)	96,532	187,223
Provision for income tax	-	(579)
Provision for restoration Kingaroy Pilot Plant (*)	1,226,511	-
Total Current Provisions	1,323,043	186,644
(b) Non-Current Liabilities		
Provision for employee benefits (long service leave)	8,313	7,520
Provision for restoration Kingaroy Pilot Plant (*)	-	544,824
Total Non-Current Provisions	8,313	552,344
(*) Provision for restoration Kingaroy Pilot Plant		
Provision at the start of the year	544,824	544,824
Charge for the year	681,687	-
Total Kingaroy Pilot Plant Provisions	1,226,511	544,824

(*) The provision for restoration costs is in relation to the pilot plant at Kingaroy pursuant to s.190 of the Mineral Resources Act 1989 (Queensland) and the Environmental Protection Act 1994 (Queensland). The amount of \$544,824 (+10% GST) is provided by a bank guarantee with the State of Queensland from the National Australia Bank. The Company increased the provision based on two factors; (i) the requirement to decommission and rehabilitate the underground cavity at Kingaroy pursuant to the amended Environmental Authority issued by DERM and effective 19 July 2011 (the Company continues to contest the authority of this amended Environmental Authority), and (ii) an assessment of the adequacy of the previous provision based on current knowledge and external third party advice. Refer to the Accounting Policies and critical accounting estimates and judgements section and Note 2 (b)(iv).

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

	Consolidated Group				
	Issue Price \$	Securities Issued 2011 Number	Gross Proceeds 2011 \$	Securities Issued 2010 Number	Gross Proceeds 2010 \$
NOTE 19: EQUITY- CONTRIBUTED					
(a) Movements in Fully Paid Ordinary Shares					
Contributed equity at the start of the financial year		919,127,810	65,376,172	645,521,749	45,191,672
Proceeds received from:					
New shares issued – Cockatoo Coal Ltd at fair value	0.0000	-	-	15,000,000	885,000
New shares issued	0.0825	-	-	201,106,061	16,591,250
New shares issued	0.0720	17,775,408	1,279,830	-	-
New shares issued	0.0340	2,058,824	70,000	-	-
New shares issued	0.0320	3,125,500	100,016	-	-
New shares issued	0.0347	4,322,767	150,000	-	-
New shares issued	0.0383	30,000,000	1,148,560	-	-
New shares issued	0.0303	3,300,330	100,000	-	-
New shares issued	0.0350	28,571,429	1,000,000	-	-
New shares issued	0.0350	3,289,474	100,000	-	-
New shares issued	0.0300	3,333,333	100,000	-	-
New shares issued	0.0300	27,027,027	1,000,000	-	-
New shares issued	0.0300	90,000,000	2,700,000	-	-
Unlisted vendor options exercised	0.0300	-	-	57,500,000	1,725,000
Transfers from share-based payments reserves:					
Fair value of unlisted vendor options exercised	0.0171	-	-	-	983,250
Less share issue transaction costs		-	(1,969,369)	-	(1,414,360)
Contributed equity from ordinary shares		1,131,931,902	71,155,209	919,127,810	63,961,812

Fully and Partly Paid Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of, and amounts paid up on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Call Options Over Unissued Shares

All listed and unlisted options issued by the Company entitle the holder to purchase one fully paid ordinary share in the capital of the Company at their respective exercise prices. None of the options have any dividend or voting entitlements, nor do they carry any participation rights in respect of any proceeds from the winding up of the Company.

Information relating to the Company's Employees, Officers and Consultants option plan 2007, project financier and vendor options, including details of options issued, exercised and lapsed during the financial year and the options outstanding at the end of the financial year is set out in note 21.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

		Consolidated Group	
		2011	2010
	Notes	\$	\$
NOTE 19: EQUITY - CONTRIBUTED (CONT'D)			
(b) Capital Management			
Gearing Ratios			
The Group's capital structure is monitored using gearing ratios, calculated as net debt divided by total capital.			
Net debt is calculated as total borrowings (including "borrowings" and "trade and other payables" as shown on the statement of financial position, plus term deposits securing bank guarantees) less "cash at bank and on hand". Total capital is calculated as "total equity attributable to equity holders of the Parent Entity" as shown on the statement of financial position plus net debt.			
The gearing ratios as at 30 June each year were as follows.			
Borrowings – long-term		28,188	41,129
Trade and other payables	17	555,713	1,639,663
Total debt		583,901	1,680,792
Less cash and cash equivalents	10	(5,043,046)	(3,862,432)
Add back surplus cash		4,459,145	2,181,640
Net debt		-	-
Add total equity attributable to equity holders of the parent entity		7,102,736	35,174,100
Total capital		7,102,736	35,174,100
Gearing ratio (net debt / total capital) (%)		0%	0%

Objectives

The Group's capital management objective is to ensure that it continues as a going concern in order to provide returns for shareholders and benefits for other stakeholders, whilst maintaining an optimal capital structure aimed at reducing the cost of capital.

Capital structures may be maintained or adjusted by adjusting the amount of dividends paid to shareholders, returning capital to shareholders, issuing new shares or selling assets to reduce debt.

There has been no change in the capital management strategy adopted in each of the financial years presented. The Group is not subject to any externally imposed capital requirements.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Consolidated Group				
Issue Price	Securities to be Issued 2011	Gross Proceeds 2011	Securities to be issued 2010	Gross Proceeds 2010
\$	Number	\$	Number	\$

NOTE 20: EQUITY- UNISSUED

(a) Movements in Unissued Ordinary Shares

Equity to be issued at the start of the financial year	200,000	14,400	-	-
Shares Issued	(200,000)	(14,400)		
Unissued shares during the year	-	-	200,000	14,400
Equity to be issued at the end of the financial year	-	-	200,000	14,400

	Consolidated Group	
	2011	2010
Notes	\$	\$

NOTE 21: EQUITY – OPTIONS

Share-based payments reserves:

Unlisted management options	21 (a)	257,830	833,832
Unlisted project financier options	21 (b)	-	-
Unlisted vendor options	21 (c)	-	-
Total share-based payment reserve		257,830	833,382

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

	Consolidated Group			
	Securities Issued 2011 Number	Fair Value 2011 \$	Securities Issued 2010 Number	Fair Value 2010 \$

NOTE 21: EQUITY - OPTIONS (Cont'd)

**(a) Movements in the Unlisted Management
Options Reserve**

Reserve balance at the start of the financial year	24,800,000	833,832	20,600,000	573,184
<u>Fair Value Adjustments to Existing Options</u>				
Adjustment for lapsed and Expired Options	(17,400,000)	(561,260)	-	-
Pro-rata fair value recognition over the three-year vesting period of existing options	-	(14,742)	-	173,341
<u>Fair Value Adjustments for New Options Issued</u>				
Pro-rata fair value recognition over staggered three-year vesting period of new options	-	-	4,200,000	87,307
Reserve balance at the end of the financial year	7,400,000	257,830	24,800,000	833,832

**(b) Movements in the Unlisted Project Financier
Options Reserve**

Reserve balance at the start of the financial year	10,000,000	-	10,000,000	-
<u>Fair Value Adjustments for New Options Issued</u>				
Pro-rata fair value recognition once the conditional non-market vesting requirements have been satisfied	(10,000,000)	-	-	-
Reserve balance at the end of the financial year	-	-	10,000,000	-

The non-market conditional vesting requirement referred to above is the achievement of the "financial close" on the First Financing as defined in the Memorandum of Understanding, which the Company signed with Direct Invest (Pte) Ltd on 09 June 2008. The financial close is yet to be achieved. Refer to note 29

(c) Movements in the Unlisted Vendor Options Reserve

Reserve balance at the start of the financial year	-	-	57,500,000	983,250
<u>Transfers to Classes of Issued Capital:</u>				
Fully paid ordinary shares, upon the exercising of options	-	-	(57,500,000)	(983,250)
Reserve balance at the end of the financial year	-	-	-	-

The share-based payment reserves, (a) to (c) above, record the fair value of equity benefits provided as part of agreements entered into by the Company. Note 26 and the remuneration section of the Director's Report provides further details about these options, including their respective exercise prices and expiry dates.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

	Consolidated Group	
	2011	2010
	\$	\$
<u>NOTE 22: RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES</u>		
Loss after income tax for the year attributable to equity holders of the Parent Entity	(35,229,788)	(4,098,768)
Add minority interest in the loss after income tax from controlled entities	(48,788)	(54,603)
Total loss after income tax for the year	(35,278,576)	(4,153,371)
<u>Net Exchange Rate Differences</u>		
Net foreign currency translation reserve effect on changes in operating assets and liabilities	-	(9)
<u>Non-cash expenditure</u>		
Amortisation and depreciation expense	407,193	930,581
Unrealised gain on foreign currencies	(133)	-
Share-based payments	(14,742)	260,648
Impairment of non-current assets	32,238,769	-
Loans to non-related parties included in other debtors	-	(50,000)
Loans from related entities	-	6,196
Expenditure allocated and capitalised to UCG projects	-	(2,187,863)
<u>Change in net operating assets and liabilities</u>		
Decrease/(Increase) in trade and other debtors	319,917	(7,673)
Increase/(Decrease) in trade and other payables	(1,059,705)	403,315
Increase/(Decrease) in provisions	592,368	140,842
Net Cash from operating activities	(2,794,909)	(4,657,334)

NOTE 23: SEGMENT INFORMATION

The principal business of the group is the development of UCG projects in Australia and Asia.

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 currently insignificant for separate segment reporting purposes.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Consolidated Group
2011 2010
\$ \$

NOTE 24: LOSS PER SHARE

(a) Reconciliations of the Earnings/(Loss) Used In Calculating Earnings/(Loss) Per Share

Basic and Diluted Loss Per Share

Total loss after income tax from continuing operations	(35,278,576)	(4,153,371)
Add back loss after income tax from continuing operations attributable to minority interests in controlled entities	48,788	54,603
Loss after income tax from continuing operations attributable to the ordinary equity holders of the Parent Entity	(35,229,788)	(4,098,768)
Add profit after income tax from disposal groups held for sale	-	-
Net loss after income tax attributable to the ordinary equity holders of the Parent Entity	(35,229,788)	(4,098,768)

Items (i) to (iii) above are the respective numerators used in the loss per share calculations disclosed on the income statement.

(b) Weighted Average Number of Ordinary Shares Used as the Denominator in the Loss Per Share Calculations

Weighted average number of ordinary shares and dilutive potential ordinary shares used as the denominator in calculating diluted loss per share	1,016,265,168	859,289,657
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(c) Information Regarding the Classification of Dilutive Potential Ordinary Shares

Options over unissued ordinary shares and Contingent Ordinary Shares

All of the Group's options (listed and unlisted) and its contingent ordinary shares are considered to be potential ordinary shares and have been included in the determination of diluted earnings / (loss) per share, to the extent to which they are dilutive. These securities have not been included in the determination of basic earnings / (loss) per share.

Whilst in a loss situation, all of the Group's issued options and contingent shares are anti-dilutive, as their effect would be to decrease the loss per share. They have not therefore, been used in the calculation of diluted loss per share in either financial year.

NOTE 25: KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key Management Personnel Compensation

Short-term employee benefits	1,503,628	1,298,277
Post-employment benefits	189,798	208,393
Other long-term benefits	-	-
Termination benefits	107,935	-
Share-based payments	(14,742)	254,062
Total compensation	1,786,619	1,760,732

Detailed remuneration disclosures are provided in the remuneration report, contained within the Directors' Report, which forms part of this Annual Report.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 25: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT'D)

(b) Equity Instrument Disclosures Relating To Key Management Personnel

(i) Options Provided as Remuneration and Shares Issued Upon the Exercise of Such Options

These details, together with the terms and conditions of the options, can be found in section D of the remuneration report contained within the Directors Report.

(ii) Option Holdings

The number of options over the Parent Entities ordinary shares, held during the financial year by each director of Cougar Energy Limited and other key management personnel of the Group, including their personally related parties, is set out below.

Name Of Personnel	Balance at the start of the year	Granted as Compensation during the year	Exercised During the year	Lapsed/ Forfeited during the year	Balance at the end of year	Vested And Exercisable
2011						
Directors						
Michael Dalling	2,100,000	-	-	(2,100,000)	-	-
Malcolm McAully	2,100,000	-	-	(2,100,000)	-	-
Len Walker	-	-	-	-	-	-
Sarah Christensen	-	-	-	-	-	-
Other Personnel						
Andrew Brown	4,200,000	-	-	(4,200,000)	-	-
Brad Glynne	5,000,000	-	-	-	5,000,000	5,000,000
John Henderson	4,200,000	-	-	(4,200,000)	-	-
Garry Leblang	2,400,000	-	-	(2,400,000)	-	-
Valeri Melik	2,400,000	-	-	-	2,400,000	2,400,000
Rodney Watson	2,400,000	-	-	(2,400,000)	-	-
Total number	24,800,000	-	-	(17,400,000)	7,400,000	7,400,000
2010						
Directors						
Michael Dalling	2,100,000	-	-	-	2,100,000	2,100,000
Malcolm McAully	2,100,000	-	-	-	2,100,000	2,100,000
Len Walker	36,972,750	-	(36,972,750)	-	-	-
Other Personnel						
Andrew Brown	4,200,000	-	-	-	4,200,000	4,200,000
Brad Glynne	5,000,000	-	-	-	5,000,000	3,300,000
John Henderson	-	4,200,000	-	-	4,200,000	1,400,000
Garry Leblang	2,400,000	-	-	-	2,400,000	2,400,000
Valeri Melik	2,400,000	-	-	-	2,400,000	1,600,000
Rodney Watson	2,400,000	-	-	-	2,400,000	1,600,000
Total number	57,572,750	4,200,000	(36,972,750)	-	24,800,000	18,700,000

All vested options are exercisable at the end of the each financial year.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 25: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT'D)

(b) Equity Instrument Disclosures Relating to Key Management Personnel (Cont'd)

(iii) Ordinary Share Holdings

The number of the Company's fully paid ordinary shares, held during the financial year by each director of Cougar Energy Limited and other key management personnel of the Group, including their personally related parties, is set out below. There were no shares granted during either financial year as remuneration.

Name of Personnel	Balance at the start of the year*	Acquired during the Year	Options Exercised during the year	Received as Compensation during the year	Disposed during the Year	Other Changes during the year	Balance at the end of the year
2011							
Directors							
Michael Dalling	1,118,698	-	-	-	-	(1,118,698)	N/A
Malcolm McAully	620,865	-	-	-	-	-	620,865
Len Walker	108,836,948	-	-	-	-	-	108,836,948
Sarah Christensen	-	-	-	-	-	-	-
Key Personnel							
John Henderson	55,000	-	-	-	(55,000)	-	-
Rajeev Chandra	-	6,000	-	-	-	-	6,000
Valeri Melik	41,786	-	-	-	-	-	41,786
Total number	110,673,297	6,000	-	-	(55,000)	(1,118,698)	109,505,599

*Excludes G Leblang

2010

Directors

Michael Dalling	1,000,000	118,698	-	-	-	-	1,118,698
Malcolm McAully	502,167	118,698	-	-	-	-	620,865
Len Walker	93,745,500	118,698	46,972,750	-	(32,000,000)	-	108,836,948

Key Personnel

John Henderson	-	55,000	-	-	-	-	55,000
Garry Leblang	130,000	-	-	-	-	-	130,000
Valeri Melik	-	41,786	-	-	-	-	41,786
Total number	95,377,667	452,880	46,972,750	-	(32,000,000)	-	110,803,297

An entity associated with Dr Len Walker also owns 661 fully paid ordinary shares in the capital of Cougar Energy (UK) Limited, an entity controlled by Cougar Energy Limited.

(c) Loans to Key Management Personnel

No loans were made to the Directors of Cougar Energy Limited, nor to any of the Company's other key management personnel during either of the 2011 or 2010 financial years.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 26: SHARE-BASED PAYMENT PLANS

All of the following share-based payment disclosures relate to both the Consolidated Group and the Parent Entity. For each type of share-based payment disclosed in this note, the Group has measured the fair value of the goods and services received as consideration for the equity instruments granted indirectly, by reference to the fair value of those equity instruments.

(a) Employee, Officers and Consultants 2007 Option Plan

The above mentioned option plan was approved by shareholders at the 2007 and 2010 annual general meetings. The exercise price, and vesting conditions are determined by the Company's Directors, in accordance with the plan. All options have a staggered vesting period over three years, typically with one third of the total number of options granted vesting each year on the anniversary of the grant date. The total fair value of these options is being recognised progressively on a pro-rata basis over each option's respective vesting period. Participation in the plan is at the Directors' discretion. Once vested, the options remain exercisable until their expiry. The options are granted for no consideration and carry no dividend or voting entitlements. When exercised, each option converts into one fully paid ordinary share in the capital of the Company. The maximum number of unexercised options that can be issued at any one time is 30 million.

(i) Number and Weighted Average Exercise Prices of Options

Grant Date	Expiry Date	Exercise Price	Balance at the start of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at the end of the year	Vested and Exercisable at the end of the year
2011								
23-11-2007	30-11-2010	\$0.10	10,800,000	-	-	(10,800,000)	-	-
28-04-2009	01-05-2012	\$0.10	1,600,000	-	-	(800,000)	800,000	800,000
28-04-2009	01-05-2012	\$0.15	1,600,000	-	-	(800,000)	800,000	800,000
28-04-2009	01-05-2012	\$0.20	1,600,000	-	-	(800,000)	800,000	800,000
04-05-2009	03-05-2012	\$0.10	1,600,000	-	-	-	1,600,000	1,600,000
04-05-2009	03-05-2012	\$0.15	1,700,000	-	-	-	1,700,000	1,700,000
04-05-2009	03-05-2012	\$0.20	1,700,000	-	-	-	1,700,000	1,700,000
01-12-2009	30-11-2012	\$0.10	1,400,000	-	-	(1,400,000)	-	-
01-12-2009	30-11-2012	\$0.15	1,400,000	-	-	(1,400,000)	-	-
01-12-2009	30-11-2012	\$0.20	1,400,000	-	-	(1,400,000)	-	-
Total Number			24,800,000	-	-	(17,400,000)	7,400,000	7,400,000
Weighted average exercise price			\$0.12	-	-	-	\$0.12	
2010								
23-11-2007	30-11-2010	\$0.10	10,800,000	-	-	-	10,800,000	10,800,000
28-04-2009	01-05-2012	\$0.10	1,600,000	-	-	-	1,600,000	1,600,000
28-04-2009	01-05-2012	\$0.15	1,600,000	-	-	-	1,600,000	1,600,000
28-04-2009	01-05-2012	\$0.20	1,600,000	-	-	-	1,600,000	-
04-05-2009	03-05-2012	\$0.10	1,600,000	-	-	-	1,600,000	1,600,000
04-05-2009	03-05-2012	\$0.15	1,700,000	-	-	-	1,700,000	1,700,000
04-05-2009	03-05-2012	\$0.20	1,700,000	-	-	-	1,700,000	-
01-12-2009	30-11-2012	\$0.10	-	1,400,000	-	-	1,400,000	1,400,000
01-12-2009	30-11-2012	\$0.15	-	1,400,000	-	-	1,400,000	-
01-12-2009	30-11-2012	\$0.20	-	1,400,000	-	-	1,400,000	-
Total Number			20,600,000	4,200,000	-	-	24,800,000	18,700,000
Weighted average exercise price			\$0.10	\$0.15	-	-	\$0.12	

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 26: SHARE-BASED PAYMENT PLANS (CONT'D)

	2011	2010
(ii) <u>Weighted average share price at the date of exercising options</u>	-	-
(iii) <u>Weighted average remaining contractual life of those options on issue at the end of each year</u>	0.83 Years	2.42 Years
(iv) <u>Weighted average fair value of options granted during the year</u>	N/A	\$0.03

(b) Project Financier Options

These options were approved by shareholders at the 2008 annual general meeting of the Company held on 27 November 2008. The exercise price and vesting conditions are contained in a Memorandum of Understanding signed by the Company and Direct Invest (Pte) Ltd ("DI") on 9 June 2008. The MOU defines three tranches of options, labelled A, B and C. All options have non-market vesting conditions. The Tranche A options (which have been granted) and the tranche B options (which are yet to be granted) vest upon the financial close of the first financing, as defined within the MOU. The tranche C options, (which are yet to be granted), vest upon the financial close of the second financing. Due to the existence of these non-market vesting conditions, the fair value of these options will not be recognised in the Company's accounts until the respective financial close is achieved on the first and second financings. Once vested, the options remain exercisable until their expiry. The Tranche A options were granted for no consideration upon signing the MOU, whereas the Tranche B and C options are in consideration for DI's assistance with the first and second financings. None of the options carry any dividend or voting entitlements. When exercised, each option converts into one fully paid ordinary share in the capital of the Company. At the date of this Annual Report, neither the first nor the second financings had been completed and expired on 30th June 2011.

(i) Number and Weighted Average Exercise Prices of Options

Grant Date	Expiry Date	Exercise Price	Balance at the start of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at the end of the year	Vested and Exercisable at the end of the year
2011								
01-12-2009	30-06-2011	\$0.25	10,000,000	-	-	(10,000,000)	-	-
Total Number			10,000,000	-	-	(10,000,000)	-	-
Weighted Average Exercise Price			\$0.25	-	-	-	\$0.25	-
2010								
09-06-2008	30-06-2011	\$0.25	10,000,000	-	-	-	10,000,000	-
Total number			10,000,000	-	-	-	10,000,000	-
Weighted average exercise price			\$0.25	-	-	-	\$0.25	-

No options were forfeited during either financial year except for above.

	2011	2010
(ii) <u>Weighted Average Share Price at the Date of Exercising Options</u>	-	-
(iii) <u>Weighted average remaining contractual life of those options on issue at the end of each year</u>	-	1.00 Year
(iv) <u>Weighted average fair value of options granted during the year</u>	-	-

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 26: SHARE-BASED PAYMENT PLANS (CONT'D)

(c) Vendor Options

These options were approved by shareholders at the 2006 extraordinary general meeting of the Company held on 29 September 2006. The exercise price and vesting conditions were determined in accordance with the Cougar Energy Pty Ltd purchase agreement. All options vested upon the grant date. The total fair value of these options was recognised in the Company's accounts upon vesting. Once vested, the options remained exercisable until their expiry. The options were granted as consideration for the purchase of Cougar Energy Pty Ltd by the Company, and carried no dividend or voting entitlements. When exercised, each option converted into one fully paid ordinary share in the capital of the Company.

(i) Number and Weighted Average Exercise Prices of Options

Grant Date	Expiry Date	Exercise Price	Balance at the start of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at the end of the year	Vested and Exercisable at the end of the year
2010								
29-09-2006	06-10-2009	\$0.03	57,500,000	-	(57,500,000)	-	-	-
Total number			57,500,000	-	(57,500,000)	-	-	-
Weighted average exercise price			\$0.03	-	\$0.03	-	\$0.03	\$0.03

No options were forfeited during either financial year.

	2011	2010
(ii) Weighted average share price at the date of exercising options	-	\$0.0905

(d) Expenses Recognised for the Year Arising from Share-Based Payment Transactions

The total expense arising from share-based payment transactions recognised during the year and its various components is presented below.

	Notes	Consolidated Group	
		2011	2010
		\$	\$
Management options	26(a)		
- Pro-rata recognition of the fair value of:			
- Existing options		(14,742)	173,343
- New options granted during the year		-	87,305
Total share-based payment expense		(14,742)	260,648

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 27: AUDITOR'S REMUNERATION

During the year, the following fees were paid or payable for services provided by the parent entity's auditor - PKF.

Audit and review of financial reports	51,240	48,500
Other non-audit services	-	-
Total auditor's remuneration	51,240	48,500

NOTE 28: COMMITMENTS

(a) Capital Expenditure Commitments

The Group's expenditure commitments at the end of each financial year are set out below.

(i) Exploration and Evaluation Expenditure

Within one year	94,000	2,484,622
Later than one year, but not later than five years	726,200	-
Later than five years	-	-

(ii) Construction

Within one year	-	-
Later than one year, but not later than five years	-	-
Later than five years	-	-
Total capital commitments	820,200	2,484,622

(b) Lease Commitments

(i) Minimum lease payments for non-cancellable operating leases for office space

Within one year	167,812	163,115
Later than one year, but not later than five years	79,124	281,355
Total non-cancellable operating lease commitments	246,936	444,470

The Group leases various premises in Melbourne and Queensland under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of each lease are re-negotiated.

(ii) Cancellable operating and finance leases

Insurance Premium Funding	45,061	-
Total cancellable operating lease commitments	45,061	-
Total commitments	1,112,197	2,929,092

**COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

NOTE 29: CONTINGENT LIABILITIES

As at 30 June 2011, the Consolidated Group and the Parent Entity had the following contingent liabilities:

(a) Amounts Potentially Payable Under Complaints and Summons dated 30 June 2011

The Company has been served with a Complaint and Summons made on behalf of DERM. The Complaint alleges three counts of contravention of environmental authority pertaining to the Kingaroy site. Should the Company be found guilty of any count, the maximum fine the court can impose maybe up to \$832,500 per count. DERM may seek, although it has not done so to date, an order that the Company pay rehabilitation, compensation, investigation, court and legal costs to DERM. The outcome of the proceedings is unknown, nor if any, the amount of the fines or any other costs if any. The Company will contest each count.

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

On 19 July 2011 DERM issued to the Company an amended Environmental Authority stipulating the following requirements for the site:

- (a) limits all UCG activities on site to decommissioning, rehabilitation, and care and maintenance of the site;
- (b) requires an ongoing groundwater monitoring program across a range of quality characteristics to be implemented until results indicate that all contaminants (if any) are consistent with the "background level" for a period of six months;
- (c) provides for strict notification guidelines in the event that further contaminants are recorded in any of the monitoring bores; and
- (d) provides 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 this amended Environmental Authority which specifically requires the rehabilitation of the underground cavity. The Company has made a provision for the costs of this work based on internal assumptions and third party advice it has received. The scope of works is still to be confirmed by DERM.

(c) Amounts potentially payable under orders made by DERM for works at Kingaroy (cont'd)

The Company has submitted a procedure for the decommissioning and rehabilitation of the underground cavity to DERM for approval. The Company has made a provision for the costs of these works based on the procedure submitted to DERM. The amended Environmental Authority also requires a groundwater monitoring program to be developed and implemented for the site which the Company has implemented. This needs to be confirmed by DERM.

If DERM does not agree, the Company may be liable for further operational costs of rehabilitation works and ground water monitoring programmes, the costs of which are unable to be determined with certainty.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

NOTE 30: EVENTS OCCURRING AFTER BALANCE DATE

The following table sets out in chronological order the material events that have occurred since 30 June 2011, involving the Parent Entity and/or its controlled entities. Where possible, the financial impact of each event has also been quantified.

Effective Date	Transaction Details and Financial Impact:
5 July 2011	The Company received a Complaint and Summons from DERM alleging contraventions of the Kingaroy environmental authority. The Company will contest each count. Should the Company be found guilty of any count, the maximum fine the court may impose is \$832,500 per count. DERM may also seek, although it has not done so to date, an order that the Company pay rehabilitation, compensation, investigation, court and legal costs to DERM. The Company has accordingly recorded this in Note 29 as a contingent liability.
8 July 2011	The Company received from DERM an amended Environmental Authority dated 7 July 2011 in respect of the Kingaroy site. This document limits the underground gasification activities at the site to decommissioning, rehabilitation, care and maintenance of the site.
2 August 2011	The Company lodged an Application for Internal Review (by DERM) of the decision to issue the amended Environmental Authority. This Application was made in accordance with the Environmental Protection Act 1994 (Queensland).
17 August 2011	The Company has submitted a procedure for the decommissioning and rehabilitation of the underground cavity to DERM for approval. The Company has made a provision for the costs of these works based on the procedure submitted to DERM. The amended Environmental Authority also requires a groundwater monitoring program to be developed and implemented for the site, which the Company has implemented.

**COUGAR ENERGY LIMITED
DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2011**

The Directors of Cougar Energy Limited declare that in their opinion:

- (a) the financial statements and the notes to those statements set out on pages 28 to 71, and the remuneration disclosures that are contained within the Remuneration report within the Directors' report, set out on pages 9 to 20, are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2011 and of their performance for the financial year ended on that date, and
- (b) the financial report also complies with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) as disclosed in note 2, and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have received the declarations required by section 295A of the Corporations Act 2001 from the Managing Director and the Chief Financial Officer.

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



**Dr Len Walker
Director**

31 August 2011
Melbourne



Chartered Accountants
& Business Advisers

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

Report on the Financial Report

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

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 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the 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. These Auditing 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.

Independence

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

Auditor's Opinion

In our opinion:

- (a) the financial report of Cougar Energy Limited 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 its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*, and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(a).

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Chartered Accountants
& Business Advisers

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 "Going Concern" in the financial report, which indicates that the consolidated entity incurred a net loss attributable to owners of \$35,229,788 which is inclusive of an impairment charge of \$32,238,769 for the year ended 30 June 2011, had net cash outflows from operating activities amounting to \$2,794,909 and net cash outflows from investing activities amounting to \$3,199,174. These conditions along with other matters set forth in Note 2 "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.

The financial report has been prepared on a going concern basis for the reasons set forth in Note 2 "Going Concern" and therefore 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 necessary should the consolidated entity not continue as a going concern.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 18 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 Energy Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

PKF

31 August 2011
Melbourne

J A Mooney
Partner

COUGAR ENERGY LIMITED SHAREHOLDER INFORMATION

Additional information required by the Australian Stock Exchange (ASX) listing rules. Information is as at 29 August 2011.

(a) DISTRIBUTION OF EQUITY SECURITIES

An analysis of the numbers of each class of equity security holders by the size of their holdings follows.

Security Holding Range:	Listed Fully paid Ordinary Shares	Unlisted Management Options	Unlisted Project Financier Options
1 - 1,000	358	-	-
1,001 - 5,000	607	-	-
5,001 - 10,000	927	-	-
10,001 - 100,000	3,845	-	-
100,001 and over	1,774	2	-
Totals	7,511	2	-
Number of securities in a marketable parcel of \$500	35,715	-	-
Number of security holders with less than a marketable parcel	3,815	-	-

(b) EQUITY SECURITY HOLDERS

(i) Twenty largest quoted equity security holders.

The names of the twenty largest holders of quoted equity securities are set out below.

Name of Equity Holder	<u>Listed Fully Paid Ordinary Shares</u>	
	Number Held	Percentage of Issued Capital(%)
Innisfree Pty Limited*	83,836,948	7.41
Limitless International Holdings Pty Limited	28,571,429	2.52
Belrose Consulting Pty Limited	21,000,000	1.86
Cockatoo Coal Limited	15,000,000	1.33
Leonard Keith Walker & Rosalie Joyce Walker Super Fund *	15,000,000	1.33
Mr Jason Worley	12,375,000	1.09
National Nominees Limited	10,646,088	0.94
Dr Leonard Keith Walker & Mr Marco Salvatore Carlei (Innisfree No 2)*	10,000,000	0.88
Mr Craig Heath	7,531,500	0.67
Netwealth Investments Limited	6,246,621	0.55
Somnus Pty Limited	6,000,000	0.53
JP Morgan Nominees Australia Limited	5,561,503	0.49
Mrs Belinda Louise Haan	5,510,000	0.49
Mr Donald Stuart Crombie	5,358,262	0.47
Crimson Holdings Pty Limited	5,200,000	0.46
Mr Donald Lansbury Dillon & Ms. Kathryn Mary Lambert	5,101,215	0.45
Mr Benjamin Phillips	5,073,000	0.45
Mr Gavin Lee Langerak	5,059,972	0.45
UBS Wealth Management Australia Nominees Pty Limited	4,651,200	0.41
Citicorp Nominees Pty Limited	4,044,553	0.36
Totals	261,767,291	23.13

Individual percentages vary due to rounding.

* Associated with Dr Len Walker

COUGAR ENERGY LIMITED
SHAREHOLDER INFORMATION

(b) EQUITY SECURITY HOLDERS (CONT'D)

(ii) Unquoted Equity Securities

The number of unquoted equity securities on issue and the number of holders for each class of unquoted securities is set out below.

Name of Equity Holder	Unlisted Management Options	
	Number Held	Percentage of Issued Capital
Brad Glynne	5,000,000	67.57
Valeri Melik	2,400,000	32.43
Totals	7,400,000	100.00

(c) SUBSTANTIAL EQUITY HOLDERS

The Parent Entity's substantial equity holders are set out below.

Name of Equity Holder	Listed Fully Paid Ordinary Shares		Unlisted Options *	
	Number Held	Percentage of Issued Capital	Number Held	Percentage of Issued Capital
Innisfree Pty Limited	83,836,948	7.41	-	-
Leonard Keith Walker & Rosalie Joyce Walker Super Fund	15,000,000	1.33	-	-
Dr Leonard Keith Walker & Mr Marco Salvatore Carlei (Innisfree No 2)	10,000,000	0.88	-	-
Totals	108,836,948	9.62	-	-

* = Options over unissued ordinary shares do not form part of substantial holder calculations.

(d) VOTING RIGHTS

The voting rights attaching to each class of equity securities of the Parent Entity is set out below.

(i) Listed Fully Paid Ordinary Shares

On a show of hand's every member present at a meeting in person or by proxy shall have one vote and upon a poll each

(ii) Unlisted Fully Paid Options

All classes of the Company's unlisted options have no voting rights.

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