

3 April 2012

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**CLEANSING NOTICE issued under section 708(12C)(e) of the *Corporations Act 2001 (Cth)*
(as inserted by ASIC Class Order [CO 10/322])**

1. INTRODUCTION

This Cleansing Notice has been prepared by Cougar Energy Limited (**the Company**) for the purposes of section 708(12C)(e) of the Corporations Act 2001 (as inserted by ASIC Class Order [CO 10/322]). Issuing this Cleansing Notice enables those fully paid ordinary shares in the capital of the Company (**Shares**) that may be issued on the conversion of the convertible security issued by the Company to The Australian Special Opportunity Fund LP (**ASOF**) (on the terms described below) to be on-sold to retail investors without further disclosure.

This Cleansing Notice is important and should be read in its entirety.

2. BACKGROUND

On 24 February 2012, the Company and ASOF entered into a Security Purchase Agreement (**the Agreement**) which makes provision for the Company to access funding for a period of up to twenty-four (24) months through the following instruments:

- a. an unsecured loan in the amount of \$375,000 (**Loan Security Amount**) which, subject to receipt of shareholder approval, is to convert to a convertible security (**Convertible Security**); and

- b. Share subscription tranches by ASOF of \$100,000 per month, which subject to mutual agreement in respect of any particular month, can be increased to \$400,000 (up to an aggregate of \$9,325,000).

Under the Agreement the Company also issued (i) 20,000,000 Shares to ASOF as security for and to discharge the future performance of its obligations to ASOF (**Collateral Shares**), and (ii) 8,208,097 Shares to ASOF as payment of the commencement fee specified in the Agreement (**Commencement Fee Shares**).

This Cleansing Notice relates to the issue of the Convertible Security and does not relate to the Share subscriptions referred to in paragraph (b) above nor the issue of the Collateral Shares and the Commencement Fee Shares.

The Company's shareholders approved the conversion of the Loan into the Convertible Security at the extraordinary general meeting that was held on 3 April 2012.

An outline of the rights and liabilities attaching to the Convertible Security (refer Section 3); the rights and liabilities attaching to the Shares issued upon conversion of the Convertible Security (refer Section 4); and the effect of the issue of the Convertible Security on the Company (refer Section 5) is set out below.

3. RIGHTS AND LIABILITIES ATTACHING TO THE CONVERTIBLE SECURITY

A summary of the key terms of the Convertible Security is set out below.

3.1. Issue Date

The Company will issue the Convertible Security to ASOF on the date of this Cleansing Notice (**Issue Date**).

3.2. Subscription Price

The subscription price for the Convertible Security is \$375,000.

ASOF has directed the Company to set off ASOF's entitlement to be repaid the Loan against the subscription price. Accordingly, no additional funds will be raised through the issue of the Convertible Security.

As no additional funds will be raised through the issue of the Convertible Security, by issuing the Convertible Security the Company will reduce its obligations under the Loan Security Amount by \$375,000 as the requirement to repay the Loan Security Amount will be extinguished.

3.3. Interest

No interest is payable by the Company in connection with the issue of the Convertible Security.

3.4. Security

The Convertible Security is unsecured and ASOF's entitlement to repayment will rank behind all secured debts owed by the Company and equally with all other unsecured debts owed by the Company.

3.5. Maturity Date

The Convertible Security will be converted into Shares on or prior to 24 February 2014 or such later date provided for in the Agreement (**Maturity Date**).

3.6. Conversion

ASOF may convert the Convertible Security into Shares at any time prior to the Maturity Date in whole or in part in its sole discretion by issuing a conversion notice (**Conversion Notice**).

Each Conversion Notice must specify:

- a. the amount of the Convertible Security to be converted into Shares (**Conversion Amount**) - which shall be in an amount determined by ASOF and must be for an amount of not less than \$50,000, except where the balance of the Convertible Security that is outstanding is less than \$50,000; and
- b. whether the Conversion Amount will be satisfied in whole or in part by enabling ASOF to deal with or 'capitalise' Collateral Shares (thereby reducing the number of Collateral Shares available to ASOF).

Following receipt of a Conversion Notice the Company must effect a conversion of the Convertible Security or the amount thereof specified in the Conversion Notice (a **Conversion**) by:

- a. issuing and delivering Shares to ASOF or its nominee;
- b. capitalising Collateral Shares to the extent required by the Conversion Notice
- c. or a combination of (a) and (b) above to the extent required by the Conversion Notice

(such Shares, whether Collateral Shares or Shares that are issued are referred to as **Conversion Shares**).

The number of Conversion Shares to be issued or capitalised on a Conversion shall be determined in the manner described in Section 3.7 below.

If all or part of the Convertible Security is not converted prior to the Maturity Date it will be deemed that ASOF has given notice to the Company on the last day prior to the Maturity Date to convert that part of the Convertible Security which remains unconverted.

3.7. Conversion Price

The number of Shares into which the Convertible Security may be converted is equal to the dollar amount of each Conversion (as specified in the relevant Conversion Notice) divided by the conversion price (**Conversion Price**) which will be equal to the lesser of:

- a. 130% of the average of the daily volume weighted average prices during the twenty (20) consecutive trading days on the ASX of the Company's Shares prior to the date of the Agreement (calculated at \$ 0.019204 (1.9204] cents), and
- b. 92.5% of the average of three (3) consecutive daily volume weighted average prices of the Company's Shares as selected by ASOF during a specified period prior to the date of the Conversion (which cannot be presently calculated).

If the resultant number contains a fraction, such number shall be rounded up to the next highest whole number.

3.8. Conversion limits

Conversion of the Convertible Security will not be permitted if that would cause ASOF's (together with any affiliates) voting power in the Company to increase to more than 19.99% or if it would result in the Company breaching Listing Rule 7.1.

3.9. Entitlements

The Convertible Security will not carry any entitlement to attend or vote at a general meeting of shareholders nor any entitlement to participate in any future issues of securities by the Company.

3.10. Transferability

ASOF may assign the Agreement and all of its rights and obligations under the Agreement to any affiliate of ASOF, any successor entity in connection with a merger or consolidation of ASOF with another entity, and/or any acquirer of a substantial portion of ASOF's business and/or assets, on 10 business days' prior written notice to the Company.

3.11. ASX listing

The Convertible Security will not be quoted on ASX or any other securities exchange.

Under the Agreement, the Company is required to apply to ASX for quotation of any new Shares issued on the conversion of the Convertible Security.

4. RIGHTS AND LIABILITIES ATTACHING TO SHARES ISSUED ON CONVERSION OF THE CONVERTIBLE SECURITY

The Shares to be issued to ASOF on the conversion of the Convertible Security will rank equally in all respects with all of the Company's existing Shares. The rights attaching to Shares, including the new Shares to be issued to ASOF on the conversion of the Convertible Security, are set out in the Company's constitution (**Constitution**) and, in certain circumstances, regulated by the Corporations Act 2001, the ASX Listing Rules and the general law.

Full details of the rights and liabilities attaching to Shares are set out in the Constitution, a copy of which can be inspected, free of charge, at the Company's registered office during normal business hours.

The following is a broad summary of the rights, privileges and restrictions attaching to all Shares. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of shareholders.

4.1. Voting

Every holder of Shares present in person or by proxy, attorney or representative at a meeting of shareholders has one vote on a vote taken by a show of hands and, on a poll, one vote for every Share held by him or her.

4.2. Dividends

The Company's directors may, by resolution, determine a dividend is payable and fix the amount and the time for and method of payment.

All fully paid Shares on which any dividend is declared or paid, are entitled to participate in that dividend equally.

4.3. Transfer of shares

Shares may be transferred, and transfers may be registered, in any manner required or permitted by the ASX Listing Rules or the SCH Business Rules. The Company must comply with and give effect to those rules and it may, in accordance with those rules, decline to issue certificates for holdings of Shares.

4.4. Meetings and notice

Each shareholder is entitled to receive notice of and to attend general meetings of the Company and to receive all notices required to be sent to shareholders under the Constitution.

4.5. Issue of further Shares

The Company's directors may allot, issue or grant options in respect of, further Shares on such terms and conditions as they see fit subject to compliance with the Corporations Act 2001 and the ASX Listing Rules.

4.6. Variation of rights

The Company may, with the sanction of a special resolution of the Company (which must be passed by at least 75% of shareholders present and voting at a general meeting), vary or cancel the rights attaching to Shares.

If at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class, may be varied or cancelled with the sanction of a special resolution of the Company (which must be passed by at least 75% of shareholders present and voting at a general meeting) and with either:

- a. the consent in writing of the holders of 75% of the issued shares of that class, or
- b. by a special resolution passed at a meeting of the holders of the shares of that class (which must be passed by at least 75% of class members present and voting at the meeting).

4.7. Non marketable parcels

The Constitution contains procedures to enable the Company to seek to sell non-marketable parcels of Shares on behalf of shareholders, unless the shareholder requests otherwise.

4.8. Alteration of Constitution

The Constitution can be amended by a special resolution (which must be passed by at least 75% of shareholders present and voting at a general meeting).

5. THE EFFECT OF THE ISSUE OF THE CONVERTIBLE SECURITY ON THE COMPANY

5.1. Effect of the issue on the Company

The principal effects of the issue of the Convertible Security on the Company are:

- a. to increase the number of Shares on issue upon conversion of the Convertible Security. The extent of the increase will depend on:
 - i. the extent to which ASOF elects to capitalise Collateral Shares; and
 - ii. the applicable Conversion Price; and
- b. to reduce the Company's current liabilities in light of the fact that the Loan Security Amount will be deemed to have been repaid with effect from the Issue Date (refer Section 3.2).

5.2. Potential effect on Share structure

As at the date of this Cleansing Notice the issued capital of the Company is:

Type of security	Securities prior to the issue of the Convertible Security
Shares	1,170,556,666
Options	7,400,000 unlisted management options with various exercise prices between \$ 0.10 (10 cents) and \$0.20 cents (20 cents) expiring on 1 May 2012 and 3 May 2012

The issue of the Convertible Security will not of itself impact on the issued capital of the Company. As noted above, the impact a Conversion will have on the issued capital of the Company will depend on the applicable Conversion Price and whether the Conversion Amount is satisfied in whole or in part by the capitalisation of Collateral Shares.

To the extent that a Conversion is satisfied by the capitalisation of Collateral Shares there will be no impact on the Company's issued capital. There is a maximum of 20,000,0000 Collateral Shares available for ASOF to capitalise if it chooses to do so.

5.3. Pro forma balance sheet of the Company taking into account issue of the Convertible Security

Set out on the following page is a pro forma consolidated Statement of Financial Position as at 31 December 2011 for the Company based on the published consolidated Statement of Financial Position as at 31 December 2011 for the Company adjusted to reflect the Convertible Security issue and prepared on the basis of the accounting policies normally adopted by the Company including the assessment of the Convertible Security pursuant to the requirements of AASB 132/139 relating to financial instruments.

The pro forma financial information is presented in an abbreviated form in so far as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements. The pro forma financial information is not audited. The classification of the Convertible Security and its allocations between debt and equity for the Convertible Security may change in the future.

PROFORMA STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	As Published	Proforma Adjustment	Post Adjustment
	\$	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents	3,426,179	375,000	3,801,179
Trade and other receivables	162,569		162,569
Other financial assets	1,234,098		1,234,098
Total current assets	4,822,846	375,000	5,197,846
Non-current assets			
Exploration and evaluation assets	1,012,407		1,012,407
Property, plant and equipment	417,988		417,988
Intangible assets	554,603		554,603
Total non-current assets	1,984,998		1,984,998
TOTAL ASSETS	6,807,844	375,000	7,182,844
LIABILITIES			
Current liabilities			
Trade and other payables	509,179		509,179
Borrowings	-	233,410	233,410
Provisions	1,321,159		1,321,159
Total current liabilities	1,830,338	233,410	2,063,748
Non-current liabilities			
Borrowings	23,806		23,806
Provisions	4,849		4,849
Total non-current liabilities	28,655		28,655
TOTAL LIABILITIES	1,858,993	233,410	2,092,403
NET ASSETS	4,948,851	141,590	5,090,441
EQUITY			
Contributed equity	71,155,209		71,155,209
Reserves	233,371	141,590	374,961
Accumulated losses	(66,464,716)		(66,464,716)
Total equity attributable to the owners of Cougar Energy Limited	4,923,864	141,590	5,065,454
Non-controlling interests	24,987		24,987
TOTAL EQUITY	4,948,851	141,590	5,090,441

6. ADDITIONAL INFORMATION

6.1. The Company is a "disclosing entity"

The Company is a "disclosing entity" under the Corporations Act 2001 and, accordingly, is subject to regular reporting and disclosure obligations under both the Corporations Act 2001 and the ASX Listing Rules.

These obligations require the Company to notify ASX of information about specific events and matters as they arise. In particular, the Company has an obligation under ASX Listing Rule 3.1 and section 674 of the Corporations Act 2001 (subject to certain limited exceptions) to notify ASX immediately once it is or becomes aware of information concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Shares.

The Company is also required to prepare and lodge with ASIC yearly and half-yearly financial statements accompanied by a directors' statement and report, and an audit report or review. Copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an ASIC office (refer to Section 6.2).

6.2. Copies of documents

The Company will provide a copy of each of the following documents, free of charge, to any person on request:

- a. the annual financial report most recently lodged by the Company with ASIC, being the financial report of the Company for the year ended 30 June 2011 (**2011 Financial Report**);
- b. any half-year financial report lodged by the Company with ASIC after the lodgement of the 2011 Financial Report and before the lodgement of this Cleansing Notice with ASX; and
- c. any continuous disclosure documents given by the Company to ASX after the lodgement of the 2011 Financial Report and before the lodgement of this Cleansing Notice with ASX.

A list of the continuous disclosure documents given by the Company to ASX after the lodgement of the 2011 Financial Report and before the lodgement of this Cleansing Notice with ASX is set out in the table below.

DATE	HEADLINE
27/03/2012	Notice under s.708A(5)(e) Corporations Act
27/03/2012	Appendix 3B
05/03/2012	Boardroom Radio Broadcast
01/03/2012	Notice of EGM and Information Memorandum
27/02/2012	Notice under s.708A(5)(e) Corporations Act
27/02/2012	Appendix 3B
27/02/2012	Appendix 4D - Dec 11 Half Year Report
27/02/2012	New Institutional Funding Agreement
07/02/2012	Proceeding to full hearing of Appeal
27/01/2012	Quarterly Report December 2011
12/01/2012	Asia Business Progress Report
23/12/2011	Planning and Environment Court Proceedings
28/11/2011	Boardroom Radio Broadcast
28/11/2011	Cougar Energy launches UCG development plan in Indonesia
21/11/2011	Company Secretary Appointment
08/11/2011	Boardroom Radio Broadcasts
28/10/2011	September 2011 Quarterly Report
28/10/2011	Media release 2011 AGM
28/10/2011	Results of 2011 AGM
28/10/2011	2011 AGM Addresses and Slide Presentation
17/10/2011	Boardroom Radio Broadcast
17/10/2011	Cougar Energy Sues Queensland Government and Officials
30/09/2011	CXY appeals Q'ld Govt decision to close Kingaroy UCG project
23/09/2011	Notice of AGM and Annual Report 2011

6.3 Information excluded from the continuous disclosure notice

As at the date of this Cleansing Notice, the Company advises that it has fully complied with its disclosure obligations under the ASX Listing Rules and the Corporations Act 2001, and, in particular, there is no information which the Company has excluded from any of its continuous disclosure notices given in accordance with the ASX Listing Rules and the Corporations Act as at the date of this Cleansing Notice which it would be reasonable for investors and their professional advisors to require for the purpose of making an informed assessment of:

- a. the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; and
- b. the rights and liabilities attaching to the Convertible Security and Shares.

6.4 Consent

The following consent has been given in accordance with the Corporations Act (as amended by ASIC Class Order [CO 10/322]) and has not been withdrawn as at the date of this Cleansing Notice:

ASOF has given its written consent to being named in this Cleansing Notice in the form and context in which it is named.

Yours sincerely,

Cougar Energy Limited ABN 75 060 111 784



Dr Len Walker
Managing Director and CEO