



COUGAR ENERGY

**ANNUAL
REPORT
2008**

COUGAR ENERGY LTD

COMPANY DETAILS

ACN: 060 111 784

ABN: 75 060 111 784

Directors:

Leonard Keith Walker
Malcolm James McAully
Michael John Dalling

Bankers:

National Australia Bank Ltd
330 Collins Street
Melbourne VIC 3000 Australia

Secretary:

Andrew William Metcalfe
Rodney Peter Watson

Share Registry:

Computershare Investor Services Pty Ltd
452 Johnston Street
Abbotsford VIC 3067 Australia

**Registered Office and
Principal Place of Business:**

Suite 1502, Level 15
Exchange Tower,
530 Little Collins Street,
Melbourne VIC 3000 Australia.
Tel + 61 3 9909 7200
Fax + 61 3 9909 7217

Securities Quoted:

Australian Stock Exchange Ltd. (ASX)
Codes: CXY (shares)
CXYO (options)

Auditors:

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

Web-site Address:

www.cougarenergy.com.au

THE NEW POWER FOR AUSTRALIA

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COUGAR ENERGY LTD

CHAIRMAN'S STATEMENT

Dear Shareholder

The year ended 30 June 2008 has seen Cougar Energy achieve significant progress towards its goal of developing a commercial project utilising the technology of Underground Coal Gasification (UCG) to produce a low-cost gas (syngas) as a fuel for power generation.

It is now just two years since the Company's shareholders approved the addition of UCG knowhow into its field of activity, and in that time there has been a remarkable acceptance in the market-place of the long-term potential for application of the technology both within Australia and overseas. This acceptance has of course partly resulted from rapidly escalating energy costs world-wide, and by the demand for clean coal technologies that can be used to produce power with reduced carbon dioxide emissions.

Your Company's strategy for commercial development of UCG technology has been planned by the Board utilising the vast experience of its management and technology provider, who each have more than 25 years experience in this specialised field, and who have been working together since 1997. The results of their efforts can be seen in the international expansion of interest in UCG technology and in the number of commercial UCG projects being proposed. This coupled with the great team of people we have assembled has provided the necessary knowledge and project management skills to handle the challenges of our progress.

It is Cougar Energy's belief that the simplest and most effective means of establishing a UCG operation at commercial scale is to produce gas suitable for use as a fuel in power generation, largely because of the proven capability of modern gas turbines to operate efficiently using syngas. As a result, the Company's prime focus is on the development in stages of a 400 megawatt power station on its coal lease near Kingaroy in Queensland. The Pilot Burn to initiate the project has been financed, and is in the process of construction at the time of writing this report.

Cougar Energy's goal has also been to expand its interests into the production of petrochemical products in an orderly manner, following successful establishment of its initial power generation project. The Board has set out a planned strategy to meet this longer-term ambition, which will commence with a review of the range of product options available, and the field testing strategy that will be required to implement them.

Our Managing Director's past experience with UCG has impressed on the Board the importance of long-term financial planning for successful development of this rather unique technology. As a result, Cougar Energy welcomes the Direct Invest Group of Companies to its share register, and as a partner in the forward planning of the Company's funding needs for large scale project development.

The Board and management of your Company look forward to the further progress anticipated over the next 12 months, both at Kingaroy and on other projects being assembled in Australia and overseas. On behalf of the Board, I take this opportunity to publicly thank all staff and particularly Len Walker for their continuing efforts and commitment which ensures Cougar Energy is well placed to capitalise on its assets.

Malcolm J McAully,
Chairman

30 September 2008



COUGAR ENERGY LTD

MANAGING DIRECTORS REVIEW

Introduction

Cougar Energy's focus on advancing its strategy for the commercial development of Underground Coal Gasification (UCG) produced further significant results in the year ended 30 June 2008.

This latest progress was achieved across several fronts, including:-

- Progressing development of Cougar's first planned commercial operation at the flagship Kingaroy project in Queensland
- Acquiring positions in potential follow-up projects, both in Australia and overseas
- Cementing relationships with the Company's UCG technology partner, Ergo Exergy Technologies Inc.
- Building a team of experienced professional staff in both technical and corporate positions
- Strengthening the Company's financial depth

Each of these components of Cougar Energy's ongoing activity is discussed in the following detail below, but taken together they represent a substantial achievement in only the second year in which the UCG technology has been taken up by the Company.

The ability to successfully take forward the corporate strategy is enhanced by the extensive experience and technological know-how held within the current management, and by the adoption of a clear and logical plan of development by the Board.

Projects

The location of coal leases in Australia in which Cougar Energy has an interest is shown on Figures 1 and 2, with specific potential projects being discussed below.

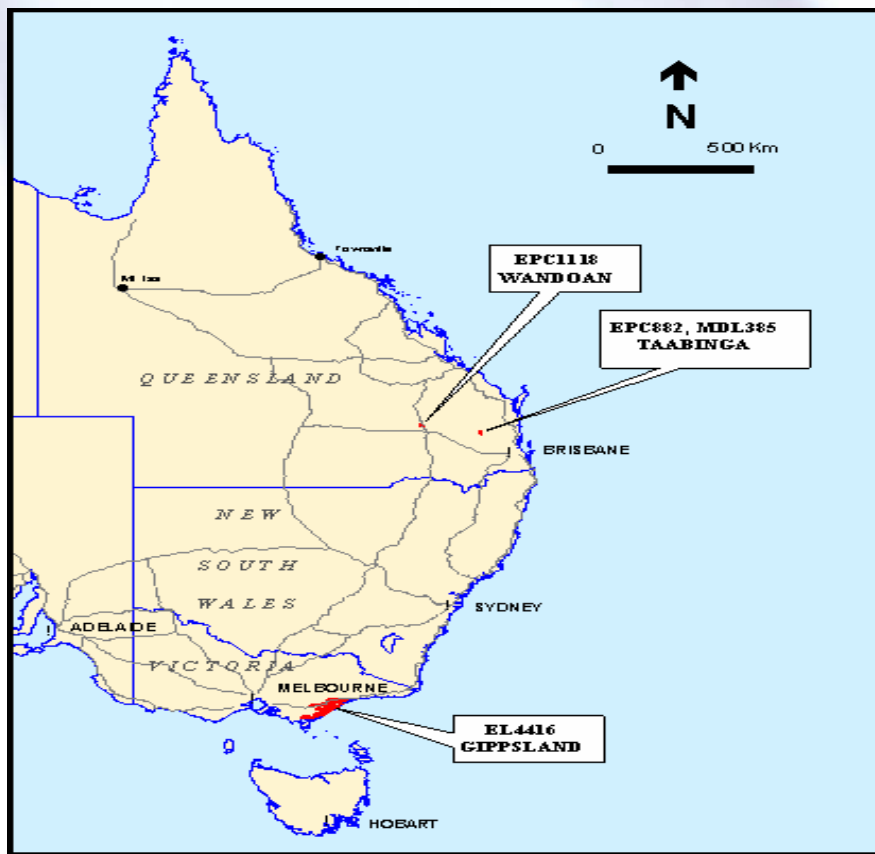


Figure 1. Active project areas



COUGAR ENERGY LTD

MANAGING DIRECTORS REVIEW (continued)

Projects (continued)

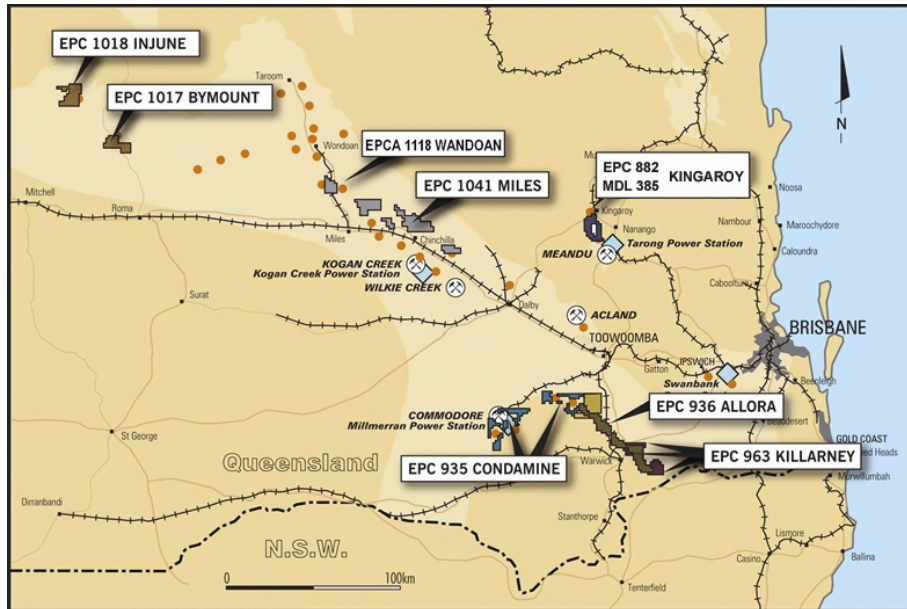


Figure 2 Surat Basin Coal Lease Interests

1. Kingaroy, Queensland

In September 2006, the Company acquired farm-in rights to a Designated Area (DA) within EPC 882 held by Metallica Minerals Ltd, and subsequently sold to Cockatoo Coal Ltd. Since that date, Cougar Energy has undertaken a number of drilling campaigns to define a coal resource suitable for application of the Underground Coal Gasification process, and commenced the design and construction of a Pilot Ignition plant as a prelude to the staged development of a 400MW power project. At the date of this report, the Company has earned a 70% interest in the DA and has entered into negotiations with Cockatoo Coal to purchase the balance.

The DA is located some 10km south of Kingaroy (see Figure 3), and is effectively divided into two parts. The southern area is covered by MDL(A) 385, which is currently awaiting grant, and which has been the focus of the drilling campaigns. In all, 23 holes have been completed for a total of 4933m including 336 metres HQ cored. Some of the holes were abandoned due to drilling problems, and three were completed as water monitor bores. Coal seams were core sampled in four of the drillholes.



COUGAR ENERGY LTD

MANAGING DIRECTORS REVIEW (continued)

Projects (continued)

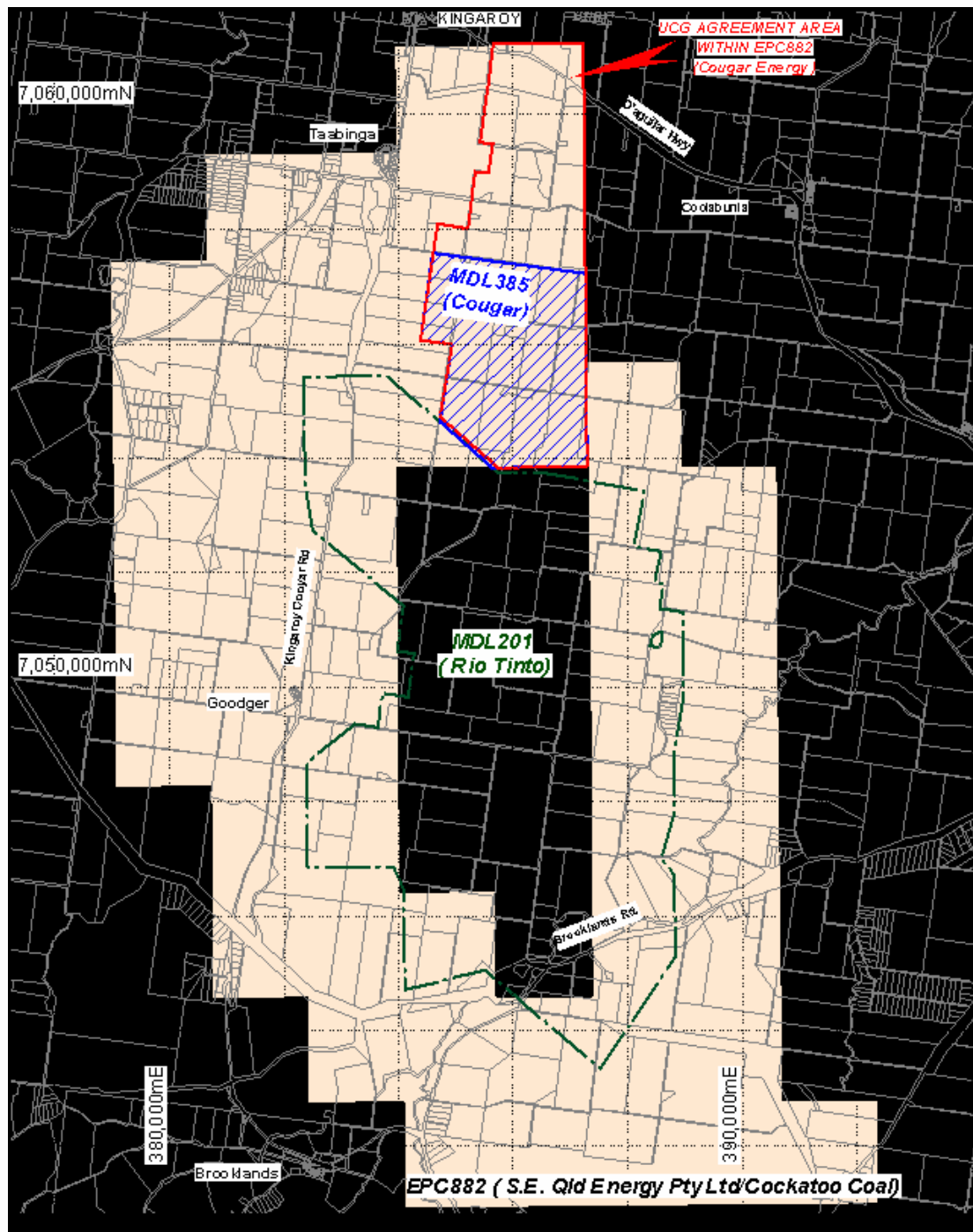


Figure 3: Kingaroy Coal Leases

The drilling program (Figure 4) confirmed that MDL(A)385 contains two prospective coal seams, the Kunioon and Goodger Seams, limited at the eastern edge of the MDL where the seams are split into thinner individual seams with coarse sandstone and conglomerate interbedding.

A JORC compliant coal resource estimate has been compiled by Cougar Energy's Chief Geologist Mr Garry Leblang, which concluded that:



COUGAR ENERGY LTD

MANAGING DIRECTORS REVIEW (continued)

Projects (continued)

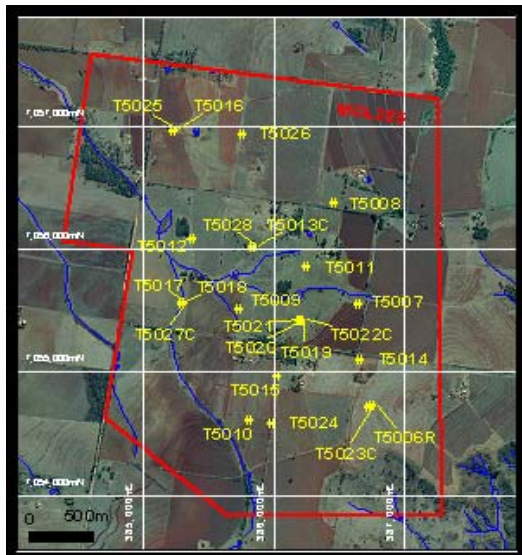


Figure 4: MDL(A) 385 Drill Hole Locations

“A total In situ Coal Resource of 73 million tonnes including an Indicated Resource of 45 million tonnes and an Inferred Resource of 28 million tonnes has been estimated within MDL(A)385”, and that

“It is anticipated that the Resource available in the Project area can be expanded and upgraded to more confident classifications with further exploration drilling. Scope exists to expand the total resource for each of the Kunioon and Goodger seams, and additional core sampling will enable estimates of Indicated Resources to increase in quantum.”

The positive outcome of this work has enabled the Company to plan the overall developmental program for a 400MW Power Project fuelled by syngas from a UCG facility at the site. The program is in three stages:

- a pilot phase during which product gas from a number of wells will be passed through a clean-up plant designed to produce a gas composition suitable for combustion in commercial gas turbines, and by-products which can be assessed for value adding or treatment for disposal
- construction of an initial combined cycle power generation plant of approximately 200MW
- Expansion of the plant to 400MW

At the date of this report, the final phase of site characterisation is in progress, and orders have been placed for gas clean-up plant, with initiation of the pilot phase planned for the second quarter of next calendar year. As with most projects currently being planned, start-up dates are severely impacted by delivery times for plant and equipment.

Cougar Energy is most enthusiastic about this progress and in particular by the accelerating development overall of the Kingaroy project. The combined vast experience of the Company's management and technology provider has enabled the project to be planned in continuous phases, rather than requiring an initial technology demonstration.



COUGAR ENERGY LTD

MANAGING DIRECTORS REVIEW (continued)

Projects (continued)

2. Surat Basin

Cougar Energy maintains interests in a number of coal leases in Queensland's Surat Basin, both in its own name (EPC1118 near Wandoan), and in association with Cockatoo Coal Ltd (Refer to Figure 2). At the time of writing, the Companies are in negotiation to resolve their interests in these Leases so that each is free to pursue its own development options.

The Wandoan Lease EPC1118 is 100% owned by the Company, and covers an area of approximately 65sq. km. It is located strategically to the down-dip side of the subcrop zone of the Macalister Seam, the most prospective seam within the Walloon Coal Measures in terms of quality and thickness. The Macalister Seam is the most reliably continuous seam occurring in the Walloon Coal Measures, and is the main seam on which the massive Wandoan open cut deposits (held by Xstrata to the immediate north) are based.

Previous drilling data accessed via the Queensland Mines Department open file reports system indicates that the Macalister Seam occurs at depths between 100 and 300 metres along the entire strike length of the EPC. Whilst only two drillholes have intersected the Macalister Seam within the EPC area, intersections of up to 6 metres of coal have been made, and thicker intersections have been made in nearby Coal Seam Methane wells.

In particular, the Carla No 2 well 2km to the west of EPC1118 intersected 10.6m of coal at 237m, and the Pinelands No 2 well, 2km south of EPC1118, intersected 7.9m of coal at 288m, both intersections being correlated as the Macalister Seam. For this reason, Cougar is confident that this EPC1118 will contain significant tonnages of coal at depths suitable for UCG exploitation.

3. Victoria

In September 2008, Cougar Energy entered into an MOU with Victoria Coal Resources Pty Ltd (VCR) in relation to the potential for applying UCG technology to the brown coal deposits known to exist within its licence EL4416 adjacent to the Latrobe Valley in Eastern Victoria (Figure 5). The MOU required Cougar Energy to review all of the existing data on the licence to determine whether areas existed where one or more coal seams had the potential for exploitation using UCG technology.

The Company has recently completed this review, and has defined a number of areas within the licence which it considers may be suitable for application of the UCG process. The review involved the assembly of all available past geological and drilling data within the licence. The relevant data was digitised and searched to define areas within which the deeper Traralgon coal seam sequence provides intersections of a suitable thickness and depth.

The defined areas are in two different geological environments. In the first, the Traralgon seam is overlain by the Yallourn and Morwell sequences of the Latrobe Valley Group, while in the second to the east and approaching the coastline, it is overlain unconformably by compact marls and limestones of the Seaspray Group.

In the first environment, where the bulk of the drilling data exists, 11 target areas were defined of various sizes, many of which exist where the Traralgon Seam may be overlain by coal sequences suitable for open pit mining.



COUGAR ENERGY LTD

MANAGING DIRECTORS REVIEW (continued)

Projects (continued)

3. Victoria (continued)

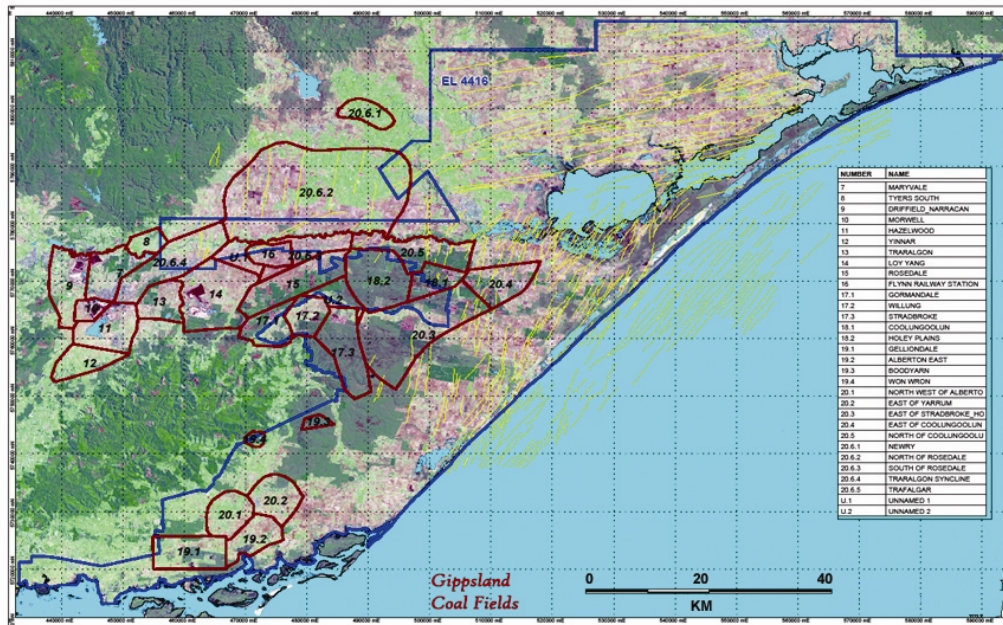


Figure 5 Location of EL 4416 in Victoria

In the limestone area, only a small number of drill holes were accessible, mostly deep petroleum wells. However past geological reports suggest that the Traralgon Seam exists in thicknesses of 20m or more over a large area within the Licence. It is within this area that Cougar Energy considers that there is a greater potential for applying UCG technology, both because of existing geological conditions, and the absence of any shallow deposits suitable for open cut mining.

Under the terms of its Memorandum of Understanding, Cougar Energy has notified VCR of areas that it wishes to be considered as having potential for UCG exploitation, subject to VCR's reservation of areas set aside for potential coal seam gas production or open cut mining. At the time of writing, the parties are in discussions regarding the mechanism for progressing the project to the next stage, including definition of the areas agreed to be appropriate for UCG development potential.

Application of the UCG technology to the brown coals existing within EL4416 will require significant drilling and in-situ testing of the relevant seams, and a comprehensive pilot gasification phase. However, Cougar Energy believes that success with the technology will provide Victoria with a very large supply of low cost syngas with a wide range of end uses, and with the capability of making significant reductions in the high carbon dioxide emissions applicable to the State's current coal-fired power generators.



COUGAR ENERGY LTD

MANAGING DIRECTORS REVIEW (continued)

Projects (continued)

4. Cougar Energy (UK) Ltd

Pakistan

Cougar Energy has an interest in developing a UCG power project in Pakistan through its 47.8% subsidiary Cougar Energy (UK) Ltd. The UK Company (CUK) applied for a lease in the extensive Thar Coal Field in the east of Sindh Province (refer Figure 6), and in November 2007 was notified of an Offer of Grant of an Exploration Licence over 47.3 sq. km. within Block III defined by previous drilling (refer Figure 7).

The Geological Survey of Pakistan has drilled 27 holes in this area at approximately 1km spacing, which were cored and geophysically logged across the zone containing the coal seams. Within this area the coal seams vary from 8m to 23m thick, at depths varying from 115m to 205m, and hence contain a very large resource to which UCG technology may apply.

With elections in Pakistan earlier this year, and the recent formation of the new Thar Coal and Energy Board to oversee coal allocations and development in the region, the Offer of Grant to CUK is being held by the Government as part of an overall review which is expected to be completed by the end of October 2008. The Company remains confident that the Grant will eventuate and that the Government understands the significant role that UCG may play in the utilisation of the huge Thar coal deposit.

The focus of the Thar UCG project on power generation reflects the need for Pakistan to increase its generating output to meet escalating demand. At present load shedding is necessary to match demand and supply, with supply to homes in Karachi being cut for more than six hours per day. As a result of the shortage of supply, prices received by power generators in Pakistan are more than double average Australian prices.

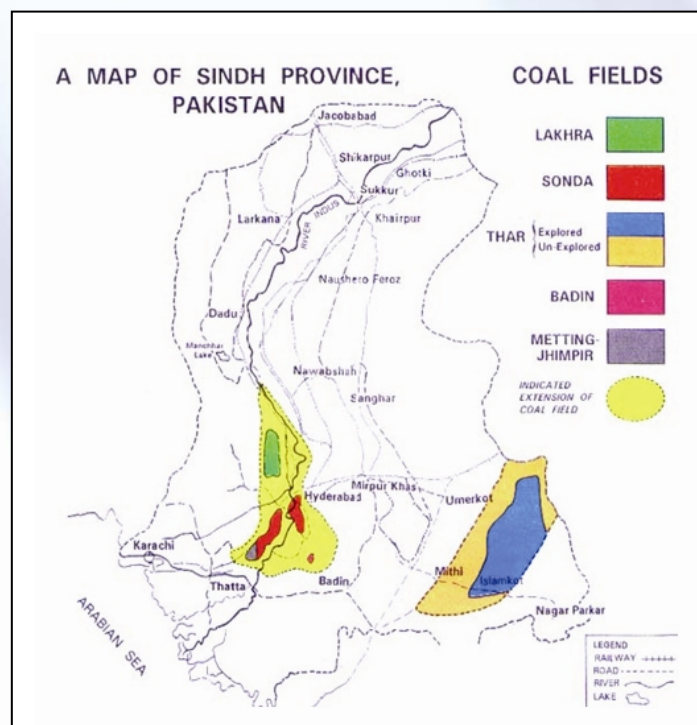


Figure 6 Location of Thar Coal Field



COUGAR ENERGY LTD

MANAGING DIRECTORS REVIEW (continued)

Projects (continued)

4. Cougar Energy (UK) Ltd

Pakistan

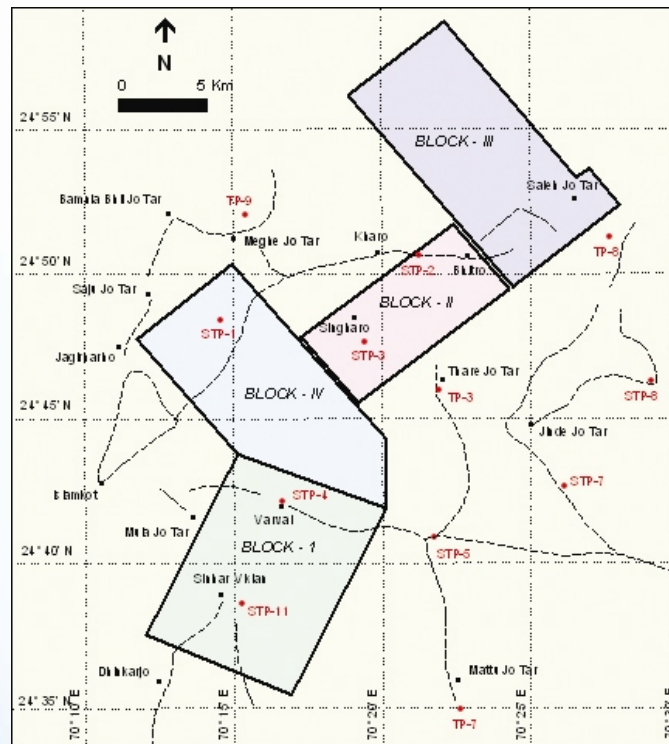


Figure 7 Location of Block III – Thar Coal Field

The Geological Survey of Pakistan has drilled 27 holes in this area at approximately 1km spacing, which were cored and geophysically logged across the zone containing the coal seams. Within this area the coal seams vary from 8m to 23m thick, at depths varying from 115m to 205m, and hence contain a very large resource to which UCG technology may apply.

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COUGAR ENERGY LTD

MANAGING DIRECTORS REVIEW (continued)

Projects (continued)

4. Cougar Energy (UK) Ltd

India

In March 2008, CUK signed a Memorandum of Understanding (MOU) with Essar Exploration and Production Limited (EEPL). EEPL is a member of the Essar Group of Companies, one of India's largest companies with interests in India and overseas in steel, shipping, power, oil and gas, telecom and construction businesses.

The MOU specifically provided for both companies to jointly evaluate and develop UCG projects within coal concessions held by a number of Public Sector Undertakings in India and with other companies within and outside India as may be mutually agreed. The Companies have subsequently held a number of meetings to progress their interests.

It is well understood that India has vast unused coal resources, much of which may be amenable to application of the UCG process, and the country also suffers from a shortage of power nationally. As a result of this view, CUK is also discussing potential application of the technology with a number of other Indian Companies.

Corporate Activity

1. Finance

Cougar Energy finished the year to 30 June in excellent financial shape, as a result of a number of decisions made earlier in the year. In May 2008, following on from a strong rise in the share price, the Company placed 50 million shares at a price of \$0.14, to raise a total of \$7 million before costs. These funds enabled the Company to go forward with confidence in planning the first phase of its Kingaroy power project.

Of significant long-term importance was the signing in June of 2008 a Memorandum of Understanding (MOU) with Direct Invest Pte Limited (DI) of Singapore for facilitation of two future capital raisings associated with the development of the Kingaroy Project.

The MOU provided for DI to arrange two tranches of funding, the first of around \$30 million at the end of 2008 (First Financing), and the second of around \$250 million at the end of 2009 (Second Financing), subject to achievement of agreed project milestones. The funding may come from a combination of corporate and/or project equity and/or debt.

DI is the Australasian part of the Direct Invest AG Group, headquartered in Dusseldorf, Germany, which is a Financial Services Institution in accordance with the German Banking Act. It provides commercial banking, investment banking, asset management, financing, and financial advisory services to companies and individuals. The Group has a wide range of international associations and already holds significant investments in the energy sector in Australia, valued in excess of \$500 million. It also participated in Cougar Energy's May 2008 equity placement.

Subsequently, in September 2008, DI entered into an agreement to underwrite the Company's December 2008 options, due to be exercised at \$0.05 by 31 December 2008. This agreement provides certainty to the Company that a further \$7.5 million will be available for implementation of the Pilot phase of the Kingaroy project.

Cougar Energy and Direct Invest management are now in regular dialogue on matters which relate to the funding needs of the Company to ensure successful development of the Kingaroy project is achieved.



COUGAR ENERGY LTD

MANAGING DIRECTORS REVIEW (continued)

Corporate Activity (continued)

2. Technology

In utilising UCG technology in its development of commercial projects, the management of Cougar Energy is continuing a long relationship, developed over more than 10 years, with its technology provider, Ergo Exergy Technologies Inc. of Canada.

Ergo Exergy is the world leader in providing practical UCG technology to the development of commercial projects internationally.

The experience of Ergo Exergy staff includes successful management and operation of the Angren (Uzbekistan) UCG facility over a period of more than 40 years, successful initiation and operation of the Chinchilla, Queensland UCG Demonstration Project over the period 1999 – 2003, and more recently successful initiation of the UCG facility in South Africa for Eskom, which plans a staged 2100MW power plant project using UCG gas as a fuel. Ergo Exergy is the world leader in providing practical UCG technology to the development of commercial projects internationally.

In November 2007, the two Companies signed a Memorandum of Understanding covering their working relationship, and at the time of writing are completing the preparation of formal Licence agreements. During the intervening period, Ergo Exergy has provided on-going advice in relation to the Kingaroy resource and its potential for commercial development. Cougar management is excited at the prospect of utilising their past working relationship with Ergo Exergy to develop a significant project with international stature.

3 Staffing

With the provision of appropriate finance and the unfolding of the Company's development strategy, a number of key appointments have been made to strengthen the Company's technical and administrative capability.

Recent appointments relate to the positions of Kingaroy Project Manager, UCG Technology Manager, Manager Power Generation and Chief Financial Controller / Company Secretary. Each appointee is highly qualified in his area, and together they represent the genesis of a team that meets the Company's goal of professional execution of its corporate and project tasks.



COUGAR ENERGY LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2008

Your Directors submit their report made in accordance with a resolution of the Directors together with the financial statements for the year ended 30 June 2008 for Cougar Energy Ltd.

DIRECTORS

The names and particulars of the qualifications, experience and special responsibilities of the Directors in office during the financial year and until the date of this report are:

Name	Age	Experience and Special Responsibilities
Leonard Keith Walker BE, PhD (Cantab), MBA, FAusIMM, FAIE	67	<p>Commenced 9 October 2006. Managing Director</p> <p>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, Qld site. He founded Cougar Energy Pty Ltd in 2006 prior to its sale and listing in September 2006. Dr. Walker is not a member of any other committees of the company.</p>
Malcolm James McAully, GAICD, MBA	47	<p>Commenced 10 December 2002. Non – Executive Director / Chairman. Member of Audit Committee.</p> <p>Mr McAully operates a management consulting business focusing on organisational performance and strategic planning trading as M J McAully Management Consulting. Currently he has five 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.</p>



COUGAR ENERGY LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2008 (continued)

Michael John Dalling AM, M.Agr.Sci, PhD.	62	<p>Commenced 12 May 2007. Non-Executive Director. Chairman of the Audit Committee.</p> <p>Dr Dalling has had a long career associated with new technologies in both the research, start-up and development phases. Following a successful 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. From 1994 to 1999, 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.</p> <p>Dr Dalling was a Director of Ceramic Fuel Cells, ASX listed in 2003, for 5 years and has been 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.</p>
COMPANY SECRETARY Rodney Peter Watson B. Ec, Grad Dip Acc, ASA	44	<p>Commenced 1 July 2008</p> <p>Mr Watson is a qualified accountant with five years audit experience, followed by ten years general accounting and company secretarial experience in a wide range of different industries including; agriculture, financial services, information technology and resources.</p>
Andrew William Metcalfe B. Bus, CPA, FCIS	44	<p>Commenced 9 May 2006</p> <p>Mr Metcalfe is a qualified accountant with over 20 years experience across a variety of industry sectors, holding the position of company secretary and CFO for a number of ASX listed entities in the resources, technology, property development, property trust, retail and manufacturing industries. Mr Metcalfe is a Fellow of the Institute of Chartered Secretaries and Administrators.</p>



COUGAR ENERGY LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2008 (continued)

Directorships of listed companies

Positions as a Director of listed companies currently held or previously held within the past three years are as follows:

	Currently Held	Previously Held
Len Walker	-	-
Malcolm McAully	-	-
Michael Dalling	-	Ceramic Fuel Cells Ltd

DIRECTORS' INTERESTS

Particulars of Directors' interests in shares and options of Cougar Energy Ltd as at the date of this report are as follows:

	Beneficially Owned (Held directly or indirectly)		Not Beneficially Owned (Held by Companies in which Directors may have voting or some dispositive power)	
	Shares	Options	Shares	Options
Len Walker	93,745,500	36,972,750	-	-
Malcolm McAully	502,167	2,100,000	-	-
Michael Dalling	1,000,000	2,100,000	-	-

Dr Walker's options ("vendor options") were issued following the sale of Cougar Energy UCG Pty Ltd (formerly Cougar Energy Pty Ltd), to Cougar Energy Limited (formerly Pinnacle VRB Limited) in September 2006. All of these vendor options are unlisted and exercisable at \$0.03 (3 cents) per share on or before 6 October 2009.

Mr Dalling's and McAully's option's ("management options") were granted in January 2008 following shareholder approval for the Company's employee, officers and consultants option plan 2007. All these management options are unlisted and exercisable at \$0.10 (10 cents) per share on or before 30 November 2010.

DIRECTORS' MEETINGS

During the year ended 30 June 2008, 11 Directors' meetings were held. The company does not have any sub committees of which the directors are members of. The number of meetings in which Directors were in attendance was as follows:

	Board Meetings		Audit Committee Meetings	
	Number of meetings held whilst in office	Number of meetings attended	Number of meetings held whilst in office	Number of meetings attended
Len Walker	11	11	-	-
Malcolm McAully	11	11	8	8
Michael Dalling	11	11	8	8



COUGAR ENERGY LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2008 (continued)

REVIEW OF OPERATIONS

The financial year 2007/08 has seen major advances in the Company's progress on both technical and financial fronts. It was determined after extensive investigation that commercial opportunities for development of the VRB battery system were limited, and that the Company's focus should be exclusively on the commercialisation of UCG technology.

Technical highlights of the financial year include:

- the establishment of a JORC compliant resource of 73m tonnes on the Kingaroy project,
- Preparation of plant design for the Pilot Burn to initiate a 400MW power project at Kingaroy,
- Evaluation of target brown coal deposits in Victoria on EL 4416 in association with Victoria Coal Resources Pty Ltd; and
- Continuing activity of Cougar Energy (UK) Ltd in Pakistan and India.

In support of the financial development of the company, an equity placement of \$7 million was made in May 2008, and in June 2008, an MOU was signed with the Direct Invest Group based in Germany and Singapore for the arrangement of a total of \$280 million over the next 18 months to finance the first 200MW stage of the Kingaroy power project.

Cougar Energy is now well placed both technically and financially to press ahead with its first commercial project at Kingaroy, and prepare the basis for follow-up projects both in Australia and internationally.

PRINCIPAL ACTIVITIES

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

RESULTS

The net loss for the consolidated group for the year after income tax attributable to equity holders of the parent entity was \$2,133,773 (2007: \$1,622,016).

DIVIDENDS

No dividends or distributions were declared, recommended or paid to members during the year.

ENVIRONMENTAL CONSIDERATIONS

The company's operations in the State of Queensland involve drilling operations, and eventual undertaking of a demonstration UCG test burn. These operations are governed by the Queensland Government Environmental Protection Act (1994) as reprinted February 2007.

There have been no significant known breaches of environmental regulations from the company's activities during the reporting period.



COUGAR ENERGY LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2008 (continued)

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 2008.

The prescribed details for each person covered by this report are detailed below under the following headings;

- (A) Directors and Executives details
- (B) Remuneration Policy
- (C) Details of remuneration of Directors and Executives
- (D) Share Based Remuneration
- (E) Relationship Between Remuneration Policy and Company Performance

(A) Directors and Executives details

Director and executive details

The following persons acted as directors of the company during or since the end of the financial year:

- Mr Malcom McCaully (Non Executive Director)
- Mr. Michael Dalling (Non Executive Director)
- Dr Len Walker (Chief Executive Officer)

The term "executive" is used in this Remuneration Report to refer to the following persons:

- Mr Andrew Brown (Executive)
- Mr Garry LeBlang (Executive)

(B) Remuneration policy

The remuneration policy of Cougar Energy Ltd has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The board of Cougar Energy Ltd believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

Remuneration philosophy

The performance of Cougar depends upon the quality of its Directors and executive officers. To prosper, Cougar must attract, motivate and retain highly skilled Directors and executive officers.

Remuneration committee

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.



COUGAR ENERGY LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2008 (continued)

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and the executive team. The Board of Directors assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of an experienced and high quality Board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash under consultancy arrangements.

Remuneration structure

All Executive & Non-Executive Directors are paid a total remuneration package which includes salary, salary sacrifice, superannuation and employee-share-payments and other fringe benefits. All packages are based upon the remuneration policy of the company.

(C) Details of remuneration of Directors and Executives

2008 Key management personnel	Short-term employee benefits	Post employment benefits	Share-based payments		Total remuneration \$
	Cash, salary and fees \$	Superannuation \$	Management options \$	Percentage of options received as remuneration %	
Name					
Non-executive directors					
Michael Dalling	5,505	36,495	55,373	56.87	97,373
Malcolm McAully	36,000	3,240	55,373	58.53	94,613
Executive directors					
Len Walker	73,800	94,511	-	-	168,311
Executives					
Andrew Brown	121,798	25,200	110,748	42.97	257,746
Garry LeBlang	193,750	-	63,285	24.62	257,035
	430,853	159,446	284,779	-	875,078



COUGAR ENERGY LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2008 (continued)

2007 Key management personnel	Short-term employee benefits	Post employment benefits	Share-based payments		Total remuneration \$
	Cash, salary and fees \$	Superannuation \$	Management options \$	Percentage of options received as remuneration %	
Name					
Directors					
Michael Dalling	-	-	-	-	-
Malcolm McAully	36,000	-	-	-	36,000
Len Walker	54,000	68,015	-	-	122,015
Colin Andrews	39,000	-	-	-	39,000
David Pethard	3,000	-	-	-	3,000
Neville Bassett	-	-	-	-	-
Executives					
Robert Blackwell	108,206	5,385	-	-	113,591
	240,206	73,400	-	-	313,606

Dr. Len Walker received fully paid shares and unlisted options as part of the consideration for the sale of Cougar Energy UCG Pty Ltd to Pinnacle VRB in September 2006 (vendor shares and options). These shares and options do not form part of the key management personnel remuneration (refer to note 25 for further details).

Service agreements

The remuneration and other terms of employment for the current Managing Director 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. Other major provisions of the agreements relating to remuneration are set out below. All contracts with executives may be terminated early by either party with three months notice, subject to termination payments as detailed below.

Name of officers and other key management	Position	Agreement Term (Years)	Commencement Date	Expiry Date	Base Salary including super for the year ended 30-Jun-2008	Termination benefit payable other than for misconduct	Basis of termination benefit payable
Dr Len Walker	Managing Director	4	29-Sep-2006	28-Sep-2010	168,311	No	N/A
Andrew Brown	Executive	None set	2-Jul-2007	N/A	146,998	No	N/A



COUGAR ENERGY LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2008 (continued)

(D) Share Based Remuneration

Options issued as part of remuneration for the year ended 30 June 2008

Options are issued to Directors and Executives as part of their remuneration. All such issued options, are not related to a specific performance condition. Options are granted to award key management personnel for their contribution to achieving specific milestones.

Management Options

Call options over unissued ordinary shares in the Company are granted under the Company's Employees, Officers and Consultants Option Plan 2007 which was approved by shareholders at the 2007 annual general meeting. The Option Plan is designed to provide long-term incentives for executives to deliver long-term shareholder returns. Under the plan, eligible participants are granted options which only vest after certain vesting conditions have been satisfied and the employees are still employed by the Group at the end of the vesting period. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or receive any guaranteed benefits.

For options issued under the plan at the date of this report, the Board determined that vesting of all options would be spread equally over a two year period with one third of the total number of options granted to each executive vesting immediately upon being granted and a further one third vesting one year after their initial grant date and the final one third vesting two years after their initial grant date. The option plan gives the Board discretion to establish the exercise and vesting periods for any options granted. Options are granted under the plan for no consideration.

The terms and conditions of each grant of options affecting remuneration in the previous reporting period, this or future reporting periods are as follows:

Grant Date	Date Vested and exercisable	Expiry Date	Exercise Price	Fair value per option at grant date
23 Nov 2007	23 Nov 2007	30 Nov 2010	\$0.10	\$0.0415
23 Nov 2007	23 Nov 2008	30 Nov 2010	\$0.10	\$0.0415
23 Nov 2007	23 Nov 2009	30 Nov 2010	\$0.10	\$0.0415

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one fully paid ordinary share. The Board has discretion to determine when options may be exercised. The exercise price was determined by the Board.



COUGAR ENERGY LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2008 (continued)

Details of call options over unissued fully paid ordinary shares in the company provided as remuneration to each director of the Company and each of the key management personnel of the parent entity and the Group are set out below.

Name:	No. of options granted during the year		No. of options vested during the year	
	2008	2007	2008	2007
Non-exec Directors				
Michael Dalling	2,100,000	-	700,000	-
Malcolm McAully	2,100,000	-	700,000	-
Executive Directors				
Len Walker	-	-	-	-
Executives				
Andrew Brown	4,200,000	-	1,400,000	-
Garry LeBlang	2,400,000	-	800,000	-
Totals	10,800,000	-	3,600,000	-

The assessed fair value at grant date of options granted to individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the key management personnel remuneration table contained within section C of the above remuneration report. Fair values at grant date are determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2008 included:

		2008	2007
(a)	Options are granted for no consideration Options vest in three equal instalments Expiry term for all vested options is as follows: First third expire after Second third expire after Last third expire after	3 years 2 years 1 year	- - -
(b)	Exercise price	\$0.10	-
(c)	Grant date	20 Nov 2007	-
(d)	Expiry date	30 Nov 2010	-
(e)	Spot share price at grant date	\$0.08	-
(f)	Expected share price volatility	98%	-
(g)	Expected dividend yield	0%	-
(h)	Risk-free interest rate at grant date	6.34%	-



COUGAR ENERGY LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2008 (continued)

Shares provided on exercise of remuneration options

No remuneration options were exercised during either financial year ended 30 June 2007 and 2008, nor have any ordinary shares in the Company been issued to any of the directors or other key management personnel that formed part of their remuneration.

Employee share scheme

The Company does not have an employee share scheme.

Additional option-related information

(i) Details of remuneration: options

For each grant of options included in the above remuneration report tables, the percentage of the grant that vested in the financial year and the percentage that was forfeited is set out below. The options vest over time if the holder is still employed by the Company. Assuming the each option holder will remain with the company until the option either expire or are exercised, then the minimum value of the options yet to vest is nil. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

	Grant Year	Proportion of options granted that have Vested %	Forfeited %	Financial years in which options may vest	Minimum total value of options granted yet to vest \$	Maximum total value of options granted yet to vest \$
Non-executive directors						
Michael Dalling	2008	33.33%	0.00%	2009	-	11,509
				2010	-	20,267
Malcolm McAully	2008	33.33%	0.00%	2009	-	11,509
				2010	-	20,267
Executive directors						
Len Walker						
Executives						
Andrew Brown	2008	33.33%	0.00%	2009	-	23,018
				2010	-	40,535
Garry LeBlang	2008	33.33%	0.00%	2009	-	13,153
				2010	-	23,163
Totals					-	163,421



COUGAR ENERGY LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2008 (continued)

(ii) Share-based compensation: remuneration options

Further details relating to remuneration options are set out below:

Name:	A Remuneration Consisting of Options %	B Value at Grant Date \$	C Value at Exercise Date \$	D Value at Lapse Date \$
Non-exec Directors				
Michael Dalling	56.87%	87,150	-	-
Malcolm McAully	58.53%	87,150	-	-
Executive Directors				
Len Walker	-	-	-	-
Executives				
Andrew Brown	42.97%	174,300	-	-
Garry LeBlang	24.62%	99,600	-	-
Totals	-	448,200	-	-

A = The percentage of the value of remuneration consisting of options, based on the value of options expensed during the current year.

B = The total value of options at grant date calculated in accordance with AASB 2 Share-based Payments that were granted as part of remuneration during the current year.

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the options at that date.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year because the vesting conditions were not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.



COUGAR ENERGY LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2008 (continued)

(E) Relationship Between Remuneration Policy and Company Performance

Elements of remuneration related to performance

Management options are issued as noted below in accordance with the employee, officers and consultants option plan 2007. There is an incentive royalty payable to Dr Len Walker based on the amount of energy produced in accordance with his employment contract. During the course of the year no production occurred and as a result Dr Walker was not entitled to any remuneration from the incentive royalty.

Company Performance Review

The tables below set out summary information about the company's earnings and movements in shareholder wealth and key management remuneration for the five years to 30 June 2008.

Profit Performance	30 June 2008 \$000's	30 June 2007 \$000's	30 June 2006 \$000's	30 June 2005 \$000's	30 June 2004 \$000's*
Revenue	152,823	17,400	64,820	539,262	720,576
Net profit (loss) before tax	(2,274,387)	(1,655,967)	(1,232,041)	(937,419)	(1,795,117)
Net profit (loss) after tax	(2,274,387)	(1,655,967)	(1,232,041)	(937,419)	(1,795,117)
Key Management Remuneration	875,078	313,606	355,867	166,164	144,636

Share Performance	30 June 2008	30 June 2007	30 June 2006	30 June 2005	30 June 2004
Share price at start of year (cents)	0.10	0.03	0.02	0.12	n/a
Share price at end of year (cents)	0.16	0.10	0.03	0.02	0.12
Dividends (cents)	-	-	-	-	-
Basic earnings per share (cents)	(0.52)	(0.50)	(0.83)	(1.27)	(2.60)
Diluted earnings per share (cents)	(0.52)	(0.50)	(0.83)	(1.27)	(2.60)

The company's remuneration policy seeks to reward staff members for their contribution to achieving significant milestones and there is no direct link to the company share price or financial performance.



COUGAR ENERGY LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2008 (continued)

OPTIONS

Unissued ordinary shares of the Company under option at the date of this report are as follows:

Option Type	Grant Date	Expiry Date	Issue Price	No. under Option
Listed options	11 Nov 2005	31 Dec 2008	\$0.0009	53,370,924
	11 Nov 2005	31 Dec 2008	\$0.0009	6,861,976
	06 Oct 2006	31 Dec 2008	\$0.0009	76,244,177
	28 Jun 2007	31 Dec 2008	\$0.0009	11,436,627
Total listed options				147,913,704
Unlisted options				
Project financier	19 Jun 2008	30 Jun 2011	\$0.0000	10,000,000
Remuneration	23 Nov 2007	30 Nov 2010	\$0.0415	10,800,000
Vendor	06 Oct 2006	06 Oct 2009	\$0.0171	62,500,000
Total unlisted options				83,300,000
Total - all options				231,213,704

Options do not carry voting or dividend rights until exercised into shares.

There were no other rights of conversion and no further options have been issued since the end of the financial year. During the year ended 30 June 2008 the following options were converted into ordinary shares.

Option Type	Grant Date	Expiry Date	Exercise Price	No. under Option
Listed options	11 Nov 2005	31 Dec 2008	\$0.05	13,967,993
	11 Nov 2005	31 Dec 2008	\$0.05	1,795,885
	06 Oct 2006	31 Dec 2008	\$0.05	19,954,276
	28 Jun 2007	31 Dec 2008	\$0.05	2,993,142
Total options				38,711,296

Since the end of the financial year ended 30 June 2008 up to the date of this report a further 7,375,000 listed options were converted into fully paid ordinary shares. In addition 10 million unlisted vendor options were also converted into fully paid ordinary shares.



COUGAR ENERGY LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2008 (continued)

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The company has agreed to indemnify the Directors and Officers of the Company on a full indemnity basis to the full extent permitted by law, for all losses or liabilities incurred by the Director as an Officer of the Company including, but not limited to, liability for negligence or for reasonable costs and expenses incurred, except where the liability arises out of conduct involving a lack of good faith. Adequate insurance is carried in respect of these risks. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy including the nature of the liability insured against and the amount of the premium.

SIGNIFICANT EVENTS AFTER YEAR END

In addition to the events occurring after 30 June 2008 already referred to in the managing directors report, a comprehensive list of all subsequent events in chronological order is contained in note 28 to these financial statements.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Comments on expected results of certain operations of the Group are included in this annual report under the review of operations and activities in the directors report.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of these proceedings.

The Company was not a party to any such proceedings during the year.

AUDITOR

In accordance with the provisions of the Corporations Act 2001, the company's auditor, PKF Chartered Accountants, continues in office

The company has not otherwise, during or since the end of the financial year indemnified or agreed to indemnify an officer or auditor of the company or any related body corporate against the liability incurred as an officer or auditor.

Total remuneration paid and payable to the company's auditor is disclosed in note 27 to these financial statements.

NON AUDIT SERVICES

No amounts were paid or remain payable to the auditor of the Company for any non-audit services.

LOSS PER SHARE

Loss per share is \$0.0052 (2007: \$0.0050)



COUGAR ENERGY LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2008 (continued)

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is attached to this report.

OTHER MATTERS AND CIRCUMSTANCES

The Directors are not aware of any other matter or circumstance since the end of the financial year, not otherwise dealt with in this report or group financial statements that has significantly or may significantly affect the operations of Cougar Energy Limited, the results of those operations or the state of affairs of the Company or Group.

Signed in accordance with a resolution of the Directors.

In Melbourne, on 30 September 2008.

Dr Len Walker
Director



Chartered Accountants
& Business Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Cougar Energy Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

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

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

R A Dean
Partner
PKF
Chartered Accountants

30 September 2008
Melbourne

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COUGAR ENERGY LTD

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

Corporate Governance Statement

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

The table below summarises the Company's compliance with the ASX Corporate Governance Council's Revised Principles and Recommendations.

Principles and Recommendations		Compliance	Comply
Principle 1 – Lay solid foundations for management and oversight			
1.1	Establish the functions reserved to the Board of Directors (Board) of Cougar Energy Limited (Company) and those delegated to manage and disclose those functions	<p>The Board is responsible for the overall corporate governance of the Company.</p> <p>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.</p>	Complies.
1.2	Disclose the process for evaluating the performance of senior executives	Senior executives prepare strategic objectives that are signed off by the Board. These objectives must then be met by senior executives as part of their performance targets. The CEO then reviews the performance of the senior executives against those objectives. The Board reviews the CEO's compliance against his and the company's objectives. These reviews occur annually.	Complies.
1.3	Provide the information indicated in <i>Guide to reporting on Principle 1</i>	A board charter is summarised in this Corporate Governance Statement.	Complies
		The Board will conduct a performance evaluation for senior executives in the next financial year in accordance with the process above.	Complies
Principle 2 – Structure the Board to add value			
2.1	A majority of the Board should be independent directors	The majority of the Board's directors are independent	Complies
2.2	The chair should be an independent director	Mr. Malcolm McAully is an independent, non-executive director of the Board.	Complies.
2.3	The roles of chair and chief executive officer should not be exercised by the same individual	Mr. Malcolm McAully is the chairman and Dr. Len Walker the chief executive officer.	Complies.
2.4	The board should establish a nomination committee	Given the size of the Board, it was determined that the Board will execute the functions of a nomination committee and that a separate nomination committee is unnecessary.	Does not comply for reasons given under 2.6 Compliance.
2.5	Disclose the process for evaluating the performance of the board, its committees and individual directors.	The Company conducts this on an annual basis. The Company has not adopted a formal policy for the performance evaluation in relation to its Board and committees.	Does not comply however a policy will be adopted in the 2009 financial year.



COUGAR ENERGY LTD

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

Principles and Recommendations	Compliance	Comply
<p>2.6 Provide the information indicated in the <i>Guide to reporting on Principle 2</i></p>	<p>This information has been disclosed in the Directors' Report attached to this Corporate Governance Statement.</p> <p>Mr. Malcolm McAully and Dr. Michael Dalling are considered independent directors of the Company. A director is considered independent when he substantially satisfies the test for independence as set out in the ASX Corporate Governance Recommendations.</p> <p>Members of the Board are able to take independent professional advice at the expense of the Company.</p> <p>Mr. Malcolm McAully, Non-Executive Chairman, was appointed to the Board on 10 December 2002.</p> <p>Dr. Len Walker, Managing Director and Chief Executive Officer, was appointed to the Board on 9 October 2006.</p> <p>Dr. Michael Dalling, AM, Non-Executive Director, was appointed to the Board on 12 May 2007.</p> <p>The Board carries out the functions of a nomination committee.</p> <p>In accordance with the information suggested in <i>Guide to Reporting on Principle 2</i>, the Company has disclosed full details of its directors in the Director's Report attached to this Corporate Governance Statement.</p>	<p>The Board has not established a nomination committee. Given the size of the Board, the Board has determined that it will execute the functions of a nomination committee and that a separate nomination committee is unnecessary.</p>
Principle 3 – Promote ethical and responsible decision making		
<p>3.1 Establish a code of conduct and disclose the code or a summary of the code</p>	<p>The Board has adopted terms under a code of conduct, which is summarised below.</p>	<p>Complies.</p>
<p>3.2 Establish a policy concerning trading in company securities by Directors, senior executives and employees and disclose the policy or a summary of that policy</p>	<p>The Company has adopted a securities trading policy that applies to trading in shares in the Company by any Director or employee of the Company.</p>	<p>Complies.</p>
<p>3.3 Provide the information indicated in <i>Guide to reporting on Principle 3</i></p>	<p>The terms of code of conduct and securities trading policy are summarised in this Corporate Governance Statement.</p>	<p>Complies.</p>



COUGAR ENERGY LTD

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

Principles and Recommendations		Compliance	Comply
Principle 4 – Safeguard integrity in financial reporting			
4.1	The Board should establish an audit committee	The Board has established an audit and risk committee to focus on issues relevant to the integrity of the company's financial reporting.	Complies.
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 a chair of the board and have at least 3 members.	<p>Members of the audit and risk committee are Dr. Michael Dalling (chair) and Mr Malcolm McAully. Dr. Dalling is an independent, non-executive director and is not chair of the board. The committee consists of only non-executive directors and a majority of independent directors;</p> <p>The audit and risk committee does not comply with Recommendation 4.2 in that the committee:</p> <ul style="list-style-type: none"> has less than three members. 	Does not comply, however, given the size of the Board, Dr. Dalling and Mr. McAully are the appointed members to ensure that the Committee comprises a majority of independent non-executive directors, and the members are considered the most appropriate members to constitute the audit and risk committee given their technical finance and accounting expertise.
4.3	The audit committee should have a formal charter	The Board has not adopted an audit and risk committee charter but operates under agreed terms of reference as displayed in this Corporate Governance Statement.	Does not comply however a charter will be adopted in the 2009 financial year.
4.4	Provide the information indicated in <i>Guide to reporting on Principle 4</i>	<p>In accordance with the information suggested in <i>Guide to Reporting on Principle 2</i>, this has been disclosed in the Directors' Report attached to this Corporate Governance Statement and is summarised in this Corporate Governance Statement.</p> <p>The audit and risk committee has held two meetings and meets every six months.</p>	Complies.
Principle 5 – Make timely and balanced disclosure			
5.1	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>The Company has adopted a continuous disclosure statement, to ensure that it complies with the continuous disclosure regime under the ASX Listing Rules and the Corporations Act 2001.</p> <p>This statement is summarised in this Corporate Governance Statement.</p>	Complies.
5.2	Provide the information indicated in the <i>Guide to reporting on Principle 5</i>	The Company's continuous disclosure policy is summarised in this Corporate Governance Statement.	Complies.



COUGAR ENERGY LTD

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

Principles and Recommendations		Compliance	Comply
Principle 6 – Respect the rights of shareholders			
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose that policy or a summary of that policy	<p>The Company has adopted a shareholder communications statement. The Company uses its website (www.cougarenergy.com.au), annual report and periodic communications with its shareholders, as well as encourage participation at general meetings.</p> <p>This statement is summarised in this Corporate Governance Statement.</p>	Complies.
6.2	Provide the information indicated in the <i>Guide to reporting on Principle 6</i>	The Company has adopted a Shareholder Communications statement which is summarised in this Corporate Governance Statement.	Complies.
Principle 7 – Recognise and manage risk			
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of these policies	The Company has adopted a risk management statement. The audit and risk committee is responsible for managing risk, however ultimate responsibility for risk oversight and risk management rests with the Board.	Complies
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>The Company has identified key risks within the business. In the ordinary course of business, management monitor and manage these risk on a regular basis.</p> <p>The Company will commence a risk management framework and risk register that will report the likelihood and consequence of risks within the business.</p>	<p>Complies</p> <p>To be completed in the 2009 financial year.</p>
7.3	The Board should disclose whether it has received assurance from the chief executive officer and chief financial officer 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 efficiently and effectively in all material respects in relation to the financial reporting risks.	The Board has received a statement from the chief executive officer and chief financial officer 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 efficiently and effectively in all material respects in relation to the financial reporting risks.	Complies
7.4	Provide the information indicated in <i>Guide to reporting on Principle 7</i>	<p>The Board has adopted a risk management statement of the company's policies.</p> <p>The Company has identified key risks within the business and has received a statement of assurance from the chief executive officer and chief financial officer.</p>	Complies



COUGAR ENERGY LTD

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

Principles and Recommendations	Compliance	Comply
Principle 8 – Remunerate fairly and responsibly		
8.1 The Board should establish a remuneration committee	<p>The Board has not established a remuneration committee.</p> <p>Due to the size of the Board this function is handled by the Board. As such, the composition and responsibilities of a remuneration committee comply with Recommendation 8.1.</p>	Does not comply. The Board has not established a remuneration committee. Given the size of the Board, the Board has determined that it will execute the functions of a remuneration committee and that a separate remuneration committee is unnecessary.
8.2 Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	The Company complies with the guidelines for non-executive director remuneration packages.	Does not comply. Fees paid to non-executive directors is below normal market levels, therefore options were issued to non-executive directors as an additional form of remuneration over a three year vesting period.
8.3 Provide the information indicated in <i>the Guide to reporting on Principle 8</i>	<p>Due to the explanation given in 8.1, the Board has not adopted a remuneration committee charter.</p> <p>However the functions of a remuneration committee that are carried out by the Board are summarised in this Corporate Governance Statement.</p> <p>In accordance with the information suggested in <i>Guide to Reporting on Principle 8</i>, however the functions of a remuneration committee that are carried out by the Board have been disclosed in the Remuneration Report within the Directors' Report attached to this Corporate Governance Statement and is summarised in this Corporate Governance Statement.</p> <p>The Company does not have any schemes for retirement benefits other than superannuation for non-executive directors. Mr. Malcolm McAully and Dr. Michael Dalling, both non-executive directors, received options under the Cougar Energy option plan.</p>	Does not comply due to reasons given in 8.1.

Cougar Energy Limited's corporate governance practices were in place through to the year ended 30 June 2008 and to the date of signing the Directors' Report.



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STATEMENT OF CORPORATE GOVERNANCE PRACTICES

Board functions

The role of the Board of *Cougar Energy Limited* is as follows:

- Representing and serving the interests of shareholders by overseeing and appraising the strategies, policies and performance of the Company. This includes overseeing the financial and human resources the Company has in place to meet its objectives and the review of management performance.
- Protecting and optimising Company performance and building sustainable value for shareholders in accordance with any duties and obligations imposed on the Board by law and the Company's constitution and within a framework of prudent and effective controls that enable risk to be assessed and managed.
- Responsible for the overall Corporate Governance of Cougar Energy Limited and its controlled entities, including monitoring the strategic direction of the Company and those entities, formulating goals for management and monitoring the achievement of those goals.
- Setting, reviewing and ensuring compliance with the Company's values (including the establishment and observance of high ethical standards).
- Ensuring shareholders are kept informed of the Company's performance and major developments affecting its state of affairs.

Responsibilities/functions of the Board include:

- selecting, appointing and evaluating from time to time the performance of, determining the remuneration of, and planning for the successor of, the Chief Executive Officer (CEO);
- reviewing procedures in place for appointment of senior management and monitoring of its performance, and for succession planning. This includes ratifying the appointment and the removal of the Chief Financial Officer and the Company Secretary;
- input into and final approval of management development of corporate strategy, including setting performance objectives and approving operating budgets;
- reviewing and guiding systems of risk management and internal control and ethical and legal compliance. This includes reviewing procedures in place to identify the main risks associated with the Company's businesses and the implementation of appropriate systems to manage these risks;
- monitoring corporate performance and implementation of strategy and policy;
- approving major capital expenditure, acquisitions and divestitures, and monitoring capital management;
- monitoring and reviewing management processes in place aimed at ensuring the integrity of financial and other reporting;
- monitoring and reviewing policies and processes in place relating to occupational health and safety, compliance with laws, and the maintenance of high ethical standards; and
- performing such other functions as are prescribed by law or are assigned to the Board.
- in carrying out its responsibilities and functions, the Board may delegate any of its powers to a Board committee, a Director, employee or other person subject to ultimate responsibility of the Directors under the Corporations Act.
- matters which are specifically reserved for the Board or its committees include the following:
 - appointment of a chair;
 - appointment and removal of the CEO;
 - appointment of Directors to fill a vacancy or as additional Director;
 - establishment of Board committees, their membership and delegated authorities;
 - approval of dividends;
 - development and review of corporate governance principles and policies;
 - approval of major capital expenditure, acquisitions and divestitures in excess of authority levels delegated to management;



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- calling of meetings of shareholders; and
- any other specific matters nominated by the Board from time to time.

Structure of the Board

The Company's constitution governs the regulation of meetings and proceedings of the Board.

The Board determines the size and composition of the Board, subject to the terms of the constitution. The Board does not believe that it should establish a limit on tenure. While tenure limits can help to ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of Directors who have been able to develop, over a period of time, increasing insight in the Company and its operation and, therefore, an increasing contribution to the Board as a whole. It is intended that the Board should comprise a majority of independent Non-Executive Directors and comprise Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds. It is also intended that the chair should be an independent Non-Executive Director. The Board regularly reviews the independence of each Director in light of the interests disclosed to the Board.

The Board only considers Directors to be independent where they are independent of management and free of any business or other relationship that could materially interfere with - or could reasonably be perceived to interfere with - the exercise of their unfettered and independent judgement. The Board has adopted a definition of independence based on that set out in Principal 2 of the ASX Corporate Governance Revised Principles and Recommendations. The Board will review the independence of each Director in light of interests disclosed to the Board from time to time.

In accordance with the definition of independence above, and the materiality thresholds set, the following Directors of *Cougar Energy Limited* are considered to be independent:

Name	Position
Mr Malcolm McAully	Chairman, Non-executive
Dr Michael Dalling	Non-executive Director

There are procedures in place, agreed by the Board, to enable Directors in furtherance of their duties to seek independent professional advice at the Company's expense.

The term in office held by each Director in office at the date of this report is as follows:

Name	Position	Term in Office
Malcolm McAully	Chair, Non-executive Director	Appointed 10 December 2002
Dr. Len Walker	Chief Executive Officer	Appointed 9 October 2006
Dr. Michael Dalling, AM	Non-executive Director	Appointed 12 May 2007

Further details on each director can be found in the Directors' Report attached to this Corporate Governance Statement.

Securities trading policy

Under the Company's Guidelines for Dealing in Securities Policy, a Director or Company employee must not trade in any securities of the Company at any time when they are in possession of unpublished price sensitive or 'inside' information in relation to those securities.

Outside of the 'window' period (before commencing to trade) a Director must first obtain the approval of the Chairman to do so; an Executive or senior manager must first obtain approval of the Chief Executive Officer; the Chairman must first obtain approval from the most senior Director; and all other employees must inform and receive approval from the Company Secretary.

Generally, the non-trading period where persons may not buy or sell the Company's securities on ASX is in the period of 30 days preceeding:

- the announcement of the half yearly and full year financial results as the case may be;



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- the holding of the Annual General Meeting or General Meeting as the case may be; and ending two days after the end of the day of the announcement of the company's financial results or the holding of the shareholders meeting to allow the market to absorb the contents of the announcement.

As required by the ASX Listing Rules, the Company notifies the ASX of any transaction conducted by Directors in the securities of the Company within five days of the transaction taking place.

Code of Conduct

The Board of Cougar is committed to the terms of the following Code of Conduct. It communicates this to management and requires our staff to adhere to its core values, together with a number of other key attributes that have been identified as being imperative to the success of Cougar.

Employees must comply with all laws and regulations. This includes understanding the laws and regulations relevant to their work and complying with the legal requirements of the jurisdictions in which they operate.

Employees should not engage in activities or hold or trade assets that involve, or could appear to involve, a conflict between their personal interests and the interests of the Company.

Management is responsible to the Board, through the Managing Director, for the group's performance under this Code.

Under the Managing Director, senior management has operational responsibility for ensuring compliance with the terms of the Code.

The Company supports the appointment of Directors who bring a wide range of business and professional skills and experience, details of which are recorded in the Directors' Report accompanying this Corporate Governance Statement. Each Director has a three year term of office, at the end of which they retire and seek re-election by shareholders as a Director.

Each Director is required to disclose any interest which might create a potential conflict of interest with their duties, as a Director of Cougar, or which would affect their independence.

In order for Directors to bring independent judgement to bear in decision making, Directors have the right to obtain independent professional advice, if necessary, at the Company's expense.

The Code of Conduct aims to promote ethical and responsible decision making. The Code of Conduct requires all employees to exhibit honesty, loyalty, integrity, professionalism and trust in their dealings, both internally and externally. Cougar aims for good corporate governance and specifically requires employees to:

- avoid situations which may give rise to a conflict of interest;
- avoid situations where they may profit from their position with the Company and gain any benefit which competes with Cougar's business;
- comply with all laws and regulations and Company policies and procedures;
- not undertake activities inconsistent with their employment with Cougar;
- properly use Cougar's assets for legitimate business purposes; and
- maintain privacy and confidentiality in both Cougar's business and the information of its suppliers, customers and shareholders.

The Board has resolved that the Code of Conduct extends to guide compliance with legal and other obligations with respect to stakeholders.

Audit and Risk committee

The Board has established an Audit and Risk Committee. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the Audit and Risk Committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.



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STATEMENT OF CORPORATE GOVERNANCE PRACTICES

The members of the Audit Committee during the year were:

Dr. Michael Dalling, AM, (non-executive director) holds a Masters of Science and has held senior positions at Melbourne University and companies associated with new technologies in both the research, start-up and development phases.

Mr. Malcolm McAully (non-executive director) holds an MBA and post-graduate qualifications in Business from the University of NSW, Bond University and University of Tasmania.

For details on the number of meetings of the Audit and Risk Committee held during the year and the attendees at those meetings, refer to the Directors' Report.

Risk

The responsibility of overseeing risk falls within the responsibilities of the Audit and Risk Committee. The Company has commenced the process of identifying key business risks within the Company.

The Company continuously undertakes a risk assessment of the Company's operations, procedures and processes. The risk assessment is aimed at identifying the following:

- a culture of risk control and the minimisation of risk throughout the Company, which is being done through natural or instinctive process by employees of the Company;
- a culture of risk control that can easily identify risks as they arise and amend practices;
- the installation of practices and procedures in all areas of the business that are designed to minimise an event or incident that could have a financial or other effect on the business and its day to day management; and
- adoption of these practices and procedures to minimise many of the standard commercial risks, i.e. taking out the appropriate insurance policies, or ensuring compliance reporting is up to date.

CEO and CFO certification

The Chief Executive Officer and Chief Financial Officer have provided a written statement to the Board that in their view:

1. the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board; and
2. the Company's risk management and internal compliance and control system is operating effectively in all material respects.

Performance

The performance of the Board and key Executives is reviewed regularly using both measurable and qualitative indicators.

Continuous Disclosure

Cougar's Continuous Disclosure Statement is designed to promote transparency and investor confidence and to ensure that all interested parties have an equal opportunity to obtain information which is issued by Cougar. Cougar is committed to complying with the continuous disclosure obligations contained in the listing rules of the Australian Stock Exchange (ASX) and under the Corporations Act, and ensuring that all shareholders and the market have an equal opportunity to obtain and review full and timely information about Cougar's securities.

The ASX defines continuous disclosure in its Listing Rules as "the timely advising of information to keep the market informed of events and developments as they occur". A reasonable person is taken to expect information to have a material effect on the price or value of securities if it would, or would be likely to, influence persons who commonly invest in securities in deciding whether or not to subscribe for, buy or sell the securities.

The Managing Director controls all Cougar's communications with assistance from the Company Secretary in carrying out his responsibilities. The Managing Director and Chairman are the only two officers allowed to authorise the release of material information to the market. The Company Secretary is responsible for administering this policy and is responsible for dealing with the ASX in relation to all listing rule issues. The procedures which have been developed to comply with these rules include immediate reporting of any matter



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which could potentially have a material effect, via established reporting lines to the Managing Director and/or the Company Secretary.

Disclosure of such price-sensitive information to the ASX must not be delayed and is disclosed, in the first instance, to the Australian Stock Exchange and disclosures to the market will then be placed on Cougar's website, www.cougarenergy.com.au. Material information must not be selectively disclosed (i.e. to analysts, the media or shareholders) prior to being announced to the ASX, and all media releases must be referred to the Managing Director for approval prior to any release.

Shareholder Communications

Cougar's communication strategy is to promote effective communication with shareholders.

Cougar is committed to:

- ensuring that shareholders and the financial markets are provided with full and timely information about Cougar's activities in a balanced and understandable way;
- complying with continuous disclosure obligations contained in the applicable Australian Stock Exchange (ASX) Listing Rules and the Corporations Act in Australia; and
- communicating effectively with its shareholders and making it easier for shareholders to communicate with Cougar.

To promote effective communication with shareholders and encourage effective participation at general meetings, information is communicated to shareholders:

- through the release of information to the market via the ASX;
- through the distribution of the Annual Report and Notices of Annual General Meeting;
- through shareholder meetings;
- through letters and other forms of communications directly to shareholders; and
- by posting relevant information on Cougar's website (www.cougarenergy.com.au).

Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and Executive team by remunerating Directors and key Executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Remuneration Committee links the nature and amount of Executive Directors' and officers' remuneration to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- retention and motivation of key Executives;
- attraction of high quality management to the Company; and
- performance incentives that allow Executives to share in the success of Cougar Energy Limited.

For a more comprehensive explanation of the Company's remuneration framework and the remuneration received by Directors and key Executives in the current period, please refer to the Remuneration Report, which is contained within the Directors' Report.

There is no scheme to provide retirement benefits to Non-Executive (or Executive) Directors.

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves and the Chief Executive Officer and Executive team. Due to the size of the Board, the Board has not established a separate Remuneration Committee as this function is dealt with by the Board.



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CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

		Consolidated Group		Parent Entity	
	Note	2008	2007	2008	2007
		\$	\$	\$	\$
Continuing operations					
Revenue	3	152,870	17,400	143,168	12,337
Accounting and audit fees		(239,239)	(131,319)	(207,789)	(131,319)
Amortisation expense	5	(865,197)	(608,298)	-	-
ASX and share registry fees		(126,285)	(80,996)	(126,285)	(80,996)
Consulting fees		(80,332)	(134,940)	(57,350)	(80,545)
Directors and employees remuneration		(284,937)	(263,298)	(228,058)	(245,058)
Exploration expenses		(184,731)	(13,131)	(44,958)	-
Impairment losses		-	-	-	-
Subsidiary investments	5	-	-	-	(567,898)
Non-related entities	5	(120,713)	(206,836)	(120,713)	(206,836)
Insurance expense		(39,281)	(11,251)	(39,281)	(11,251)
Legal fees	5	(45,929)	(60,170)	(45,929)	(60,170)
Office costs		(89,587)	(41,948)	(70,627)	(41,948)
Realised losses - investments		-	-	-	-
Non-related investments	5	(3,254)	(173,904)	(3,254)	(173,904)
Foreign exchange	5	(2,204)	-	(2,204)	-
Share-based payment expense		(284,779)	-	(284,779)	-
Travel expenses		(47,777)	(29,579)	(47,777)	(29,579)
Other expenses		(30,978)	2,230	(21,892)	(10,392)
Loss before income tax expense		(2,292,353)	(1,736,040)	(1,157,728)	(1,627,559)
Income tax (expense)	6	-	-	-	-
Loss from continuing operations after income tax		(2,292,353)	(1,736,040)	(1,157,728)	(1,627,559)
Loss after tax from:					
Disposal groups held for sale	7	17,966	80,073	17,966	80,073
(Loss) for the year		(2,274,387)	(1,655,967)	(1,139,642)	(1,547,486)
Loss for the year attributable to:					
Equity holders of the parent entity		(2,133,773)	(1,622,016)	(1,139,642)	(1,547,486)
Minority interests		(140,614)	(33,951)	-	-
(Loss) for the year		(2,274,387)	(1,655,967)	(1,139,642)	(1,547,486)

		Basic earnings / (loss) per share		Diluted earnings / (loss) per share	
		2008	2007	2008	2007
		cents	cents	cents	cents
CONSOLIDATED GROUP					
Earnings / (loss) per share from continuing operations	29	(0.52)	(0.52)	(0.52)	(0.52)
Earnings / (loss) per share from disposal groups held for sale	29	0.00	0.02	0.00	0.02
Earnings / (loss) per share from overall operations	29	(0.52)	(0.50)	(0.52)	(0.50)

The accompanying notes form an integral part of this statement.



COUGAR ENERGY LTD

**CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2008**

		Consolidated Group		Parent Entity	
	Note	2008	2007	2008	2007
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents	8	9,484,263	2,318,651	9,288,610	2,154,356
Trade and other receivables	9	160,994	11,324	118,889	1,752
Inventories	10	-	-	-	-
Other financial assets	11	15,377	13,113	15,377	13,113
Non-current assets of disposal groups held-for-sale	7(d)	90,821	446,172	90,821	446,172
TOTAL CURRENT ASSETS		9,751,455	2,789,260	9,513,697	2,615,393
NON-CURRENT ASSETS					
Other financial assets	11	-	259,953	-	259,953
Loans to subsidiary companies	12	-	-	1,885,517	-
Investments in subsidiary companies	13	-	-	5,700,092	5,700,092
Property, plant and equipment	14	27,768	8,291	13,970	8,291
Exploration Assets	15	4,489,117	2,776,195	-	2,655
Intangible Assets	16	1,894,494	2,759,691	-	-
TOTAL NON-CURRENT ASSETS		6,411,379	5,804,130	7,599,579	5,970,991
TOTAL ASSETS		16,162,834	8,593,390	17,113,276	8,586,384
CURRENT LIABILITIES					
Borrowings	17	(256,411)	(7,006)	(256,411)	-
Trade and other payables	18	(198,714)	(205,217)	(198,212)	(205,217)
Provisions	19	(10,178)	(3,287)	(11,369)	(3,287)
Non-current liabilities of disposal groups held-for-sale	7(e)	(1,000)	(277,000)	(1,000)	(277,000)
TOTAL CURRENT LIABILITIES		(466,303)	(492,510)	(466,992)	(485,504)
TOTAL LIABILITIES		(466,303)	(492,510)	(466,992)	(485,504)
NET ASSETS		15,696,531	8,100,880	16,646,284	8,100,880
EQUITY					
Contributed Equity	20	36,662,830	27,248,665	36,662,830	27,248,665
Reserves	21(a)	1,495,956	1,244,756	1,524,529	1,253,647
Accumulated losses	21(b)	(22,609,736)	(20,475,963)	(21,541,075)	(20,401,432)
Equity Attributable to Equity Holders of the Parent		15,549,050	8,017,458	16,646,284	8,100,880
Minority Interests		147,481	83,422	-	-
TOTAL EQUITY		15,696,531	8,100,880	16,646,284	8,100,880

The accompanying notes form an integral part of this statement.



COUGAR ENERGY LTD

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2008

CONSOLIDATED GROUP

	Equity \$	Share- based Payments Reserve \$	Available for Sale Financial Assets Reserve \$	Foreign Currency Reserve \$	Accum- ulated Losses \$	Attributable to Equity Holders of the Parent \$	Outside Equity Interest \$	Total Equity \$
Balance at 1 July 2006	19,703,990	-	(55,761)	-	(18,853,947)	794,282	-	794,282
Add:								
Issue of New Shares	7,609,115	-	-	-	-	7,609,115	-	7,609,115
Issue of New Options	100,000	1,239,750	-	-	-	1,339,750	-	1,339,750
Outside equity Interest	-	-	-	-	-	-	117,373	117,373
Less:								
Foreign currency translation reserve	-	-	-	(8,891)	-	(8,891)	-	(8,891)
Revaluation of shares	-	-	69,658	-	-	69,658	-	69,658
Capital raising costs	(164,440)	-	-	-	-	(164,440)	-	(164,440)
(Loss) after income tax	-	-	-	-	(1,622,016)	(1,622,016)	(33,951)	(1,655,967)
Balance at 30 June 2007	27,248,665	1,239,750	13,897	(8,891)	(20,475,963)	8,017,458	83,422	8,100,880
Add:								
Issue of New Fully Paid Ordinary Shares	7,000,000	-	-	-	-	7,000,000	-	7,000,000
Partly paid ordinary shares called up	760,000	-	-	-	-	760,000	-	760,000
Exercise of listed options	1,935,565	-	-	-	-	1,935,565	-	1,935,565
Issue of unlisted options	-	284,779	-	-	-	284,779	-	284,779
Outside equity Interest	-	-	-	-	-	-	204,674	204,674
Less:								
Foreign currency translation reserve	-	-	-	(19,683)	-	(19,683)	-	(19,683)
Capital raising costs	(281,400)	-	-	-	-	(281,400)	-	(281,400)
Sale of Assets	-	-	(13,897)	-	-	(13,897)	-	(13,897)
(Loss) after income tax	-	-	-	-	(2,133,773)	(2,133,773)	(140,614)	(2,274,387)
Balance at 30 June 2008	36,662,830	1,524,529	-	(28,574)	(22,609,736)	15,549,049	147,482	15,696,531

The accompanying notes form an integral part of this statement.



COUGAR ENERGY LTD

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2008

PARENT ENTITY

	Equity \$	Share- based Payments Reserve \$	Available for Sale Financial Assets Reserve \$	Accum- ulated Losses \$	Attributable to Equity Holders of the Parent \$	Total Equity \$
Balance at 1 July 2006	19,703,990	-	(55,761)	(18,853,947)	794,282	794,282
Add:						
Issue of New Shares	7,609,115		-	-	7,609,115	7,609,115
Issue of New Options	100,000	1,239,750	-	-	1,339,750	1,339,750
Less:						
Revaluation of shares	-		69,658	-	69,958	69,658
Capital raising costs	(164,440)		-	-	(164,440)	(164,440)
(Loss) after income tax	-		-	(1,547,486)	(1,547,486)	(1,547,486)
Balance at 30 June 2007	27,248,665	1,239,750	13,897	(20,401,432)	8,100,880	8,100,880
Add:						
Issue of New Fully Paid Ordinary Shares	7,000,000		-	-	7,000,000	7,000,000
Partly paid ordinary shares called up	760,000				760,000	760,000
Exercise of listed options	1,935,565				1,935,565	1,935,565
Issue of unlisted options		284,779	-	-	284,779	284,779
Less:						
Capital raising costs	(281,400)		-	-	(281,400)	(281,400)
Sale of Assets	-		(13,897)	-	(13,897)	(13,897)
(Loss) after income tax	-		-	(1,139,642)	(1,139,642)	(1,139,642)
Balance at 30 June 2008	36,662,830	1,524,529	-	(21,541,075)	16,646,284	16,646,284

The accompanying notes form an integral part of this statement.



COUGAR ENERGY LTD

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

		Consolidated Group		Parent Entity	
		2008	2007	2008	2007
	Notes	\$	\$	\$	\$
Cash flows from operating activities					
Net payments to suppliers and employees (inclusive of GST)		(1,791,525)	(739,797)	(1,469,144)	(621,614)
Government grants received (inclusive of GST collected)		275,000	-	275,000	-
Legal case settlement		-	103,843	-	103,843
Interest received		161,296	17,400	151,594	11,928
Interest paid		(26)	(172)	(26)	(172)
R & D income tax offset receipt		101,720	-	103,003	-
Net cash inflow from operating activities	26	(1,253,535)	(618,726)	(939,573)	(506,015)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from the sale of available-for-sale listed equities		126,021	190,784	126,021	190,784
Brokerage fees paid on listed equity sales		(3,931)	-	(3,931)	-
Payments for investments in controlled entities net of cash acquired		-	(133,260)	-	(383,260)
Payments for exploration expenditure		(1,451,061)	(276,195)	-	-
Payments for property, plant and equipment		(28,624)	(5,374)	(10,925)	(5,374)
Payments for loans made to related parties		-	-	(1,621,000)	(296,195)
Repayment of loans by related parties		9,573	-	-	-
Payments for company formation costs		(3,817)	-	-	-
Net cash inflow from investing activities		(1,351,839)	(224,045)	(1,509,835)	(494,045)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of shares and other equity securities		7,000,000	3,000,000	7,000,000	3,000,000
Proceeds from issues of shares by controlled entities		228,818	-	-	-
Proceeds from calls on partly paid shares and calls in arrears		760,000	-	760,000	-
Proceeds from issues of listed options		-	100,000	-	100,000
Proceeds from the exercising of listed options		1,935,565	-	1,935,565	-
Proceeds from unissued shares		18,750	-	18,750	-
Payments for share issue and buy-back transaction costs		(386,400)	(164,439)	(386,400)	(164,439)
Proceeds from borrowings		-	7,006	-	-
Net cash inflow from financing activities		9,556,733	2,942,567	9,327,915	2,935,561
Net increase in cash and cash equivalents		6,951,359	2,099,796	6,878,507	1,935,501
Cash at the beginning of the financial year		2,318,651	218,855	2,154,356	218,855
Cash equivalents at the beginning of the financial year		13,113	-	13,113	-
Effects of exchange rate changes on cash and cash equivalents		(41,494)	-	-	-
Cash and cash equivalents at the end of the financial year	8	9,241,629	2,318,651	9,045,976	2,154,356

The accompanying notes form an integral part of this statement



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The financial report is a general-purpose financial report that has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001. Cougar Energy Limited is a listed public company, incorporated and domiciled in Australia. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

The principal activities of the Company during the year were related to the commercial development of projects utilising Underground Coal Gasification technology, and the development of markets for the Vanadium Redox Battery Technology.

The financial report is presented in Australian dollars.

This financial report was authorised for issue by the Directors on the date the Directors' Declaration was signed.

Basis of preparation

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The accounting policies set out below have been consistently applied to all years presented.

Reporting basis and conventions

The financial report has been prepared on an accruals basis and is based on historical costs 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.

Critical accounting estimates and judgments

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

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

Share-based payment transactions

The Group 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 (see note 25).



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

The Group 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.

Recovery of deferred tax assets

Deferred tax assets resulting from unused tax losses have been recognised on the basis that management considers it is probable that future tax profits will be available to utilise the unused tax losses.

Adoption of new and revised accounting standards

In the current year, the Company and Consolidated Entity has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current period.

The Group has also adopted the following standards as listed below which only impacted on the Group's financial statements with respect to disclosure:

- AASB101 "Presentation of Financial Statements (revised October 2006)"
- AASB7 "Financial Instruments – Disclosures"

New Accounting Standards and Interpretations not yet effective

Australian Accounting Standards and Interpretations that have been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2008.

These are outlined in the table below.

Reference	Title	Summary	Application date of standard*	Impact on Group Financial Report	Application date for Group*
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 107, AASB 119, AASB 127, AASB 134, AASB136 & AASB 1023 & AASB 1038]	Amending standard issued as a consequence of AASB 8 Operating Segments.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. It is not expected to have a significant impact on the segment disclosures made as currently reported segments are aligned with management reports.	1 July 2009



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**NOTES TO THE FINANCIAL STATEMENTS
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Reference	Title	Summary	Applicati on date of standard*	Impact on Group Financial Report	Applica tion date for Group*
AASB 2007-6	Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12	Amending standard issued as a consequence of AASB 123 (revised) Borrowing Costs.	1 January 2009	As the Group does not currently construct or produce any qualifying assets which are financed by borrowings the revised standard will have no impact.	1 July 2009
AASB 8	Operating Segments	This new standard will replace AASB 114 Segment Reporting and adoption of management approach to Segment Reporting	1 January 2009	Refer to AASB 2007-3 above	1 July 2009
AASB 123 (revised June 2007)	Borrowing Costs	AASB 123 previously permitted entities to choose between expensing all borrowing costs and capitalising those that were attributable to the acquisition, construction or production of a qualifying asset. The revised version of AASB 23 requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset.	1 January 2009	Refer to AASB 2007-6 above.	1 July 2009



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Reference	Title	Summary	Applicati on date of standard *	Impact on Group Financial Report	Applicati on date for Group*
AASB 2008-1	Amendments to AASB 2 "Share Based Payments"	The amendment clarifies that vesting conditions are restricted to: - service conditions; and - Performance conditions only. Other features of a share-based payment are not vesting conditions. This restriction was not clearly stated in the pre-amended standards. This means that all other terms and conditions are accounted for in the value of the share or option at grant date. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.	1 January 2009	Not expected to impact on the Group financial report.	1 January 2009
AASB 2008- 2	Amendments to AASB 132 "Puttable Financial Instruments and Obligations arising on Liquidation."	In instances where a puttable financial instrument imposes an obligation on the entity to deliver to another party, a pro-rata share of net assets of the entity only on liquidation, the entity is permitted to classify the financial instrument as equity if the instrument meets specified requirements.	1 January 2009	Not expected to impact on the Group financial report.	1 January 2009
AASB 2008-3	Amendments to Australian Accounting Standards Arising from AASB 3 and AASB 127 [AASBs 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107].	Consequential amendments to other standards arising from AASB 39 (Revised) and AASB 127 (Amended).	1 January 2009	Not expected to impact on the Group financial report.	1 January 2009



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**NOTES TO THE FINANCIAL STATEMENTS
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Reference	Title	Summary	Applicati on date of standard *	Impact on Group Financial Report	Applicati on date for Group*
AASB 3 Business Combinatio ns (Revised)	AASB 127 Consolidated and Separate Financial Statements (Amended), AASB 2008-3 Amendments to AASBs arising from AASB 3 and AASB 127	The AASB issued the revised AASB 3 in March 2008 for application by for-profit entities only. They have committed to address the not-for-profit requirements prior to the standard becoming mandatory on 1 July 2009. Early adoption of these revisions and amendments are permitted. The revised and amended standards incorporate many changes which will have a significant impact on the profit and loss for entities entering into business combinations.	1 July 2009	Not expected to impact on the Group financial report	1 July 2009
AASB 101 Presentatio n of Financial Statements (Revised September 2007)	AASB 2007-8 Amendments to Australian Accounting Standards & Interpretations and AASB 2007-10 Further Amendments to AASBs arising from AASB 101	The revised standard affects the presentation of changes in equity and comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other AASB standards however, it is important to note that the AASB has decided that Australian issuers must make use in financial reports of the descriptions- Statement of Financial Performance and Position rather than Balance Sheet and Income Statement and use the term "financial report" and not "financial statement". The Amending Standard updates references in various other pronouncements.	1 January 2009	AASB 101 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements.	1 January 2009



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Reference	Title	Summary	Applica tion date of standar d*	Impact on Group Financial Report	Applicati on date for Group*
AASB 8 Operating Segments	AASB 2007-3 Amendments to Australian Accounting Standards 5, 6, 102, 107, 119, 127, 134, 136, 1023 & 1038 arising from AASB 8.	This standard supersedes AASB 114 Segment Reporting introducing a US GAAP approach of management reporting as part of the convergence project with FASB. This standard only applies to entities that have public accountability therefore any entities that do not fall within scope may wish to early adopt and avoid segment reporting. The Amending Standard updates references in various other pronouncements.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. It is not expected to have a significant impact on the segment disclosures made as currently reported segments are aligned with management reports.	1 January 2009
Revised AASB 3: Business Combination s	Amended AASB 127: Consolidated and Separate Financial Statements and AASB 2008-3: Amendments to Australian Accounting Standards Arising from AASB 3 and AASB 127.	Provides a choice to measure a non-controlling interest at fair value or at its proportionate share of the acquired entity's net assets. Measuring the non-controlling interest at fair value will result in goodwill attributable to the non-controlling interest being reflected in the balance sheet. If a liability is recognised in the balance sheet for a payment that is contingent on a future event, the obligation will be measured at fair value at the acquisition date, and any subsequent changes to the fair value may be reflected in the income statement, rather than against goodwill on the balance sheet. The revised standard also addresses problems that existed under the old requirements. The requirements for acquisitions made over a period of time in a target entity are simplified in the revised standard, and guidance is included to assist entities in determining which transactions form part of a business acquisition. Revisions may result in merger and acquisition activity having a high impact on profit and loss in some entities. Early adoption is only permitted for "For Profit" entities.	1 July 2009	Not expected to impact on the Group financial report.	1 July 2009



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**NOTES TO THE FINANCIAL STATEMENTS
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Reference	Title	Summary	Applicati on date of standard *	Impact on Group Financial Report	Applicati on date for Group*
Interpretati on 12 Service Concessio n Arrangeme nts	Interpretation 4 Determining whether an Arrangement contains a lease (Revised), Interpretation 129 Service Concession Arrangements: Disclosure (Revised), AASB 2007-2 Amendments to Australian Standards arising from AASB Interpretation 12	Addresses the appropriate accounting for service concession arrangements under which private sector entities participate in the development, financing, operation and maintenance of infrastructure for the provision of public services, such as transport, water and energy facilities.	1 January 2008	As the Group does not currently have Service Concession Arrangements the Interpretation will have no impact.	1 January 2008
Interpretati on 13	Customer Loyalty Programmes	Concludes that an entity shall account for award credits as a separately identifiable component of the sales transaction(s) in which they are granted (the 'initial sale'). The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale.	1 July 2008	As the Group does not currently have a Customer Loyalty Programme the Interpretation will have no impact.	1 July 2008
Interpretati on 14 AASB 119	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.	Concludes that an entity shall determine the availability of a refund or a reduction in future contributions in accordance with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan.	1 January 2008	As the Group does not have any Defined Benefit Assets the Interpretation will have no impact.	1 January 2008
Interpretati on 15	Agreements for the Construction of Real Estate.	Provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of AASB111 Construction Contracts or AASB 118 Revenue and, accordingly, when revenue from the construction should be recognised.	1 January 2009	Not expected to impact on the Group financial report.	1 January 2009



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**NOTES TO THE FINANCIAL STATEMENTS
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Reference	Title	Summary	Applicati on date of standard *	Impact on Group Financial Report	Applicati on date for Group*
Interpretatio n 16	Hedges of a Net Investment in a Foreign Operation.	Concludes that: a) the presentation currency does not create an exposure to which an entity may apply hedge accounting. Consequently, a parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between its own functional currency and that of its foreign operation. b) the hedging instrument(s) may be held by any entity or entities within the group. That on disposal of a hedged foreign operation while IAS 39 must be applied to determine the amount that needs to be reclassified to profit or loss from the foreign currency translation reserve in respect of the hedging instrument, IAS 21 must be applied in respect of the hedged item.	1 January 2009	Not expected to impact on the Group financial report.	1 January 2009
AASB139 Financial Instruments : Recognition and Measureme nt	Amendments to AASB 139 "Financial Instruments: Recognition and Measurement"	The amendment clarifies how, the principles that determine whether a hedged risk or portion of cash flows is eligible for designation, should be applied in particular situations. The amendment addresses two particular situations: <ul style="list-style-type: none"> the designation of a one-sided risk in a hedged item the designation of inflation in particular situations 	1 July 2009	Not expected to impact on the Group financial report.	1 July 2009
AASB 2008-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 7, 101, 102, 107, 108, 110, 116, 118, 119, 120, 123, 127, 128, 129, 131, 132, 134, 136, 138, 139, 140, 141, 1023 & 1038].	The amendments are part of the Annual Improvements Project and have ramifications across the requirements of several AASB standards.	1 January 2009	Not expected to impact on the Group financial report.	1 January 2009



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**NOTES TO THE FINANCIAL STATEMENTS
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Reference	Title	Summary	Applicati on date of standard *	Impact on Group Financial Report	Applicati on date for Group*
AASB 2008-6	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1 & AASB 5].	These are further amendments arising from the Annual Improvements Project and specifically impact AASB1 and AASB5.	1 July 2009	Not expected to impact on the Group financial report.	1 July 2009
AASB 2008-7	Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136].	<p>This Standard:</p> <ul style="list-style-type: none"> a) amends AASB 1 to allow first-time adopters, in their separate financial statements, to use a deemed cost option for determining the cost of an investment in a subsidiary, jointly controlled entity or associate. The deemed cost of such an investment can be either its: <ul style="list-style-type: none"> i. fair value (determined in accordance with AASB 139 Financial Instruments: Recognition and Measurement) at the entity's date of transition to Australian-equivalents-to-IFRSs; or ii. previous GAAP carrying amount at that date. <p>A first-time adopter may choose either deemed cost option to measure its investment in each subsidiary, jointly controlled entity or associate that it elects to measure using a deemed cost;</p>	1 January 2009	Not expected to impact on the Group financial report.	1 January 2009



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**NOTES TO THE FINANCIAL STATEMENTS
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Reference	Title	Summary	Applicati on date of standard *	Impact on Group Financial Report	Applicati on date for Group*
AASB 2008-7 CONT.		<p>b) removes from AASB 118 the requirement to deduct dividends declared out of pre-acquisition profits from the cost of an investment in a subsidiary, jointly controlled entity or associate. Therefore, all dividends from a subsidiary, jointly controlled entity or associate are recognised by the investor as income;</p> <p>c) amends AASB 127 to require, in particular circumstances, a new parent entity established in a group reorganisation to measure the cost of its investment at the carrying amount of the share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation. The relevant circumstances include that the reorganisation involves:</p> <ul style="list-style-type: none"> i. the new parent obtaining control of the original parent through an exchange of equity instruments; ii. no change to the group's assets and liabilities; and a) no change to the owners' absolute and relative interests in the net assets; and <p>amends AASB 136 to include recognising a dividend from a subsidiary, jointly controlled entity or associate, together with other evidence, as an indication that the investment in the subsidiary, jointly controlled entity or associate may be impaired.</p>			

* designates the beginning of the applicable annual reporting period



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Accounting Policies

Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Cougar Energy Limited ("company" or "parent entity") as at 30 June 2008 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group 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 the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary

Intercompany transactions, balances and unrealised gains on transactions between Group companies 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 Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of the Company. the consolidated financial report.

Investment in Subsidiaries

Investments in subsidiaries held by Cougar Energy Limited are accounted for at cost in the separate financial statements of the parent company

Acquisitions of subsidiaries and businesses are accounted for using the purchase 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 Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquirees identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 5 'Non-current Assets Held for sale and Discontinued Operations', which are recognised at fair value less selling costs.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group'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.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Asset Impairment

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.

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.

Property, Plant and Equipment

Property, plant and equipment are subject to an impairment test when there is an indication that impairment exists by reference to internal and external market factors. Any item of property, plant & equipment, which is impaired, must be written down to its recoverable amount. The amount of the impairment write down for assets carried at cost will be expensed through the income statement.

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 depreciation rates used for each class of depreciable assets are:

<u>Class of Asset</u>	<u>Depreciation Rate</u>	
	2008	2007
Office Furniture	37.5%	37.5%
Equipment	20%	20.0%
Computer Equipment	37.5%	37.5%

Financial Instruments

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 immediately. Financial instruments are classified and measured as set out below.

Derecognition

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.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Classification and Subsequent Measurement

(i) 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 in the period in which they arise.

(ii) 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.

(iii) 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 to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

(iv) 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.

(v) Financial Liabilities

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

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.

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 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.

Foreign Currency

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.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

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.

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.

Revenue

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

Comparatives Figures

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

Income Tax

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

- the tax consequences of recovering (settling) all assets (liabilities) are reflected in the financial statements;
- 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;
- a deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available to realise the asset;
- 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.
- Deferred income tax asset reflects the tax value of any unused tax losses.

The company participates in the R & D Tax Offset (rebate) scheme to obtain a tax rebate equivalent to the entitlements under the R & D Tax Concession. Such rebates are accrued at the time the R & D expenditure is incurred based on its estimated recovery at this time and are disclosed as a tax credit within the income statement.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

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 flow.

Inventories

Work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials on an actual cost basis.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit/loss attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

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.

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 for the 2007 and 2008 options over ordinary shares were determined using the Black-Scholes 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.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

The income statement charge or credit 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 (see note 29).

Government Grants

Cougar entered into an agreement with and received a grant from the Federal Government to subsidise the installation of VRB units on approved projects. Government grants are recognised at fair value where there is reasonable assurance that all conditions will be complied with and the grants will be received. The first tranche of the grant was receivable in June 2007 and was recognised in the balance sheet as a Current Liability as the conditions of the grant require milestones to be met over the subsequent reporting period.

During the current period the government grant was repaid in full net of costs incurred as allowed per the terms of the contract.

Exploration and evaluation project expenditure

Costs incurred during the exploration, evaluation and development stages of specific areas of interest are consolidated. 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 only 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. Ultimate recoupment of costs is dependent on successful development and commercial exploitation, or alternatively, sale of respective areas.

Costs are written off as soon as an area has been abandoned or considered to be non-commercial.

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

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 LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Intangible Assets – Key employment contracts

Intangible assets relates to employment contract assets acquired from Cougar Energy Pty Ltd and Cougar Energy (UK) Limited and is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over its expected 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.

Rehabilitation and Restoration

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 non-current liability with a corresponding asset included in UCG property and development assets. The capitalised cost of the asset is recognised in property, plant and equipment and is amortised over the life of the project.

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.

Leases

Leases of property, plant and equipment where substantially all the risks and benefits incidental to ownership of the asset, are classified as finance leases (note 31). Finance leases are capitalised, 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 substantial risks and benefits remain with the lessor are charged as expenses in the periods in which they are incurred



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 2 FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES

The Groups financial instruments consist primarily of trade accounts and cash on hand. The Group does not have significant risk exposure to financial instruments and as such risk exposures are generally managed as part of the group's overall strategic and operational risk management strategies. Consequently, there is currently no specific risk mitigating techniques employed. However, as the Group expands both domestically and internationally, management continues to monitor its exposure and will implement suitable policies when deemed necessary.

The Board reviews and agrees policies for managing each of these risks as summarised below. Primary responsibility for identification and control of financial risks rests with the Chief Executive Officer under the authority of the Board. The Board reviews and agrees strategies for managing each of the risks identified below.

(a) Financial assets and liabilities

The carrying amounts and net fair values of the economic entity's financial assets and liabilities at balance date are:

Consolidated Group	Carrying Amount		Net Fair Value	
	2008 \$	2007 \$	2008 \$	2007 \$
Financial assets				
Cash and cash equivalents	9,484,263	2,318,651	9,484,263	2,318,651
Other deposits	13,777	13,113	13,777	13,113
Trade and other receivables	160,994	11,344	160,994	11,344
Investments – Available for sale financial assets (VRB Power Shares)	-	259,953	-	259,953
Non-traded financial assets	9,659,034	2,603,061	9,659,034	2,603,061
Financial liabilities				
Trade and other payables	198,714	205,217	198,714	205,217
Borrowings	256,411	7,006	256,411	7,006
Non-traded financial liabilities	455,125	212,223	455,125	212,223
Parent Entity				
	2008 \$	2007 \$	2008 \$	2007 \$
Financial assets				
Cash and cash equivalents	9,288,610	2,154,356	9,288,610	2,154,356
Other deposits	13,777	13,113	13,777	13,113
Trade and other receivables	118,889	1,751	118,889	1,751
Investments – Available for sale financial assets (VRB Power Shares)	-	259,953	-	259,953
Non-traded financial assets	9,421,276	2,429,173	9,421,276	2,429,173
Financial liabilities				
Trade and other payables	198,212	205,217	198,212	205,217
Borrowings	256,411	-	256,411	-
Non-traded financial liabilities	454,623	205,217	454,623	205,217



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 2 FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

(b) Risk Exposures and Responses

Interest Rate Risk

The Group's exposure to market interest rates related primarily to the Group's cash deposits (as disclosed in Note 8) and short-term borrowings (Note 17).

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian and overseas variable interest rate risks that are not designated in cash flow hedges:

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Financial Assets				
Cash & cash equivalents	9,484,263	2,318,651	9,288,610	2,154,356
Other deposits	13,777	13,113	13,777	13,113
Financial Liabilities				
Borrowings - overdraft	(256,411)	-	(256,411)	-
Net exposure to interest rate risk	9,241,629	2,331,764	9,045,976	2,167,469

The Group constantly analyses its interest rate opportunity and exposure. Within this analysis consideration is given to existing positions and alternative arrangement on fixed or variable deposits. The following sensitivity analysis is based on the interest rate opportunity/risk in existence at the balance sheet date.

At 30 June, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Post tax profit Higher/(Lower)		Equity Higher/(Lower)	
	2008	2007	2008	2007
	\$	\$	\$	\$
Judgements of reasonably possible movements:				
Consolidated Group				
+1% (100 basis points)	29,693	5,844	29,693	5,844
-1 % (100 basis points)	(29,693)	(5,844)	(29,693)	(5,844)
Parent Entity				
+1% (100 basis points)	26,759	4,203	26,759	4,203
-1 % (100 basis points)	(26,759)	(4,203)	(26,759)	(4,203)

The movement in profits are due to higher/lower interest received. As the Group does not have any derivative instruments the movements in equity are those of profit only. A movement of + and - 1% is selected because this historically is within a range of rate movements.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 2 FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

Foreign Currency Risk

Currently, the Group's UK-based subsidiary, Cougar Energy (UK) Limited funds the Group's operations in Pakistan and the United Kingdom in either Great British Pounds, Pakistani Rupee or United States Dollars. From a foreign currency conversion and consolidation point of view the Pakistani operations are first converted into GBP and consolidated with the United Kingdom operations before both operations are converted into AUD and consolidated with the Group's Australian operations. As a result of these overseas operations in the Groups results can be affected by movements in the GBP/AUD, PKR/GBP and USD/GBP exchange rates. The Group does not have a formal policy or strategy implemented to mitigate the effects of its foreign currency exposure. As the majority of the Group's foreign currency operations occur within subsidiaries located in foreign countries, foreign currency risk is considered to be an inherent risk of the Group.

At 30 June, the Group had the following exposure to the GBP and PKR foreign currencies that are not designated in cash flow hedges:

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Financial Assets				
Cash & cash equivalents – GBP	175,171	164,279	-	-
Cash & cash equivalents – PKR	20,482	-	-	-
Trade and other receivables – PKR	38,288	9,573		
Financial Liabilities				
Trade and other payables – GBP	-	(7,006)	-	-
Trade and other payables – PKR	(502)	-	-	-
Net exposure to foreign exchange risk	233,439	166,846	-	-

Management believes the balance date risk exposures are representative of the risk exposure inherent in the financial instruments. Management also believes that as the exposure is insignificant the impact of movements in exchange rates for either currency against the Australian dollar would have a minimal impact upon either profit for the period or equity at balance date.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 2 FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

Price Risk

The Group and the parent entity are exposed to equity securities price risk. This arises from investments held by the Group and classified on the balance sheet as available-for-sale. Neither the Group nor the parent is exposed to commodity price risk.

Management does not actively manage the investment as it only relates to shares held in VRB Power System Inc.

The Group disposed the balance of its equity investments during the financial year ended 30 June 2008.

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Financial Assets				
Investments – Available-for-sale financial assets (VRB Power Shares)	-	259,953	-	259,953
Net exposure to equity securities price risk	-	259,953	-	259,953

For the financial years noted above there were no financial liabilities exposed to this price risk.

The following sensitivity is based on the price risk exposures in existence at the balance sheet date:

At 30 June, had the price moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Post tax profit Higher/(Lower)		Equity Higher/(Lower)	
	2008	2007	2008	2007
	\$	\$	\$	\$
Judgements of reasonably possible movements:				
Consolidated Group				
+1% (100 basis points)	-	-	-	25,995
-1 % (100 basis points)	-	-	-	(25,995)
Parent Entity				
+1% (100 basis points)	-	-	-	25,995
-1 % (100 basis points)	-	-	-	(25,995)

A movement of + and – 10% is selected because this historically is within a range of price movements for the appropriate equity markets.

Other Price Risk

The Group is not exposed to any other significant price risks.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 2 FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

Liquidity Risk

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 at materially disadvantageous terms.

Ultimate responsibility for liquidity risk management rests with the board of directors, who has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and capital funding initiatives by continuously monitoring forecast and actual cash flows.

The Group believes that liquidity is not a risk because the Group has Total Liabilities of \$466,603 (2007: \$492,510) and Total Current Assets of \$9,751,455 (2007: \$2,789,260) of which \$9,484,263 (2007: \$2,318,651) consists of cash or cash equivalents.

The Group is consequently more than sufficiently solvent to meet its payment obligations in full as they fall due.

Credit Risk

Credit risk arises from the financial assets of the group, which comprise cash and cash equivalents, trade and other receivables, available-for-sale financial assets. The Group's exposure to credit risk arises from potential default of the counter party, with maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The parent entity has made loans to certain subsidiary companies 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 inter-company loans.

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. The risks are regularly monitored.

In addition, receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debt is not significant. The Group does not have any significant concentrations of credit risk.

Fair Value

The method for estimating fair value is outlined in the relevant notes to these financial statements.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	Notes	Consolidated Group		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
NOTE 3 REVENUE					
Other revenue from continuing operations					
Interest received from financial assets		152,870	17,400	143,168	12,337
Other revenue from disposal groups held for sale					
Interest received from financial assets	7	8,427	-	8,427	-
Total revenue from all operations		161,297	17,400	151,595	12,337
NOTE 4 OTHER INCOME					
Other income from disposal groups held for sale					
VRB legal dispute settlement proceeds	7	-	103,843	-	103,843
VRB battery grants received	7	250,000	-	250,000	-
Total other income from all operations		250,000	103,843	250,000	103,843



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
NOTE 5 EXPENSES				
Loss before income tax from continuing operations included the following specific expenses:				
Amortisation expenses				
Key employment services	865,197	608,298	-	-
Contributions to accumulation super funds	163,186	73,400	163,186	73,400
Depreciation of property, plant & equipment	9,148	1,542	5,247	1,542
Finance costs				
Interest expense	26	172	26	172
Impairment losses - financial assets				
Investments - related entities	-	-	-	567,898
Investments - non-related entities	120,713	206,836	120,713	206,836
Legal fees	45,929	60,170	45,929	60,170
Realised losses				
Investments	3,254	173,904	3,254	173,904
Foreign exchange	2,204	-	2,204	-
	<u>5,458</u>	<u>173,904</u>	<u>5,458</u>	<u>173,904</u>
Unrealised losses				
Foreign exchange	3,853	-	3,853	-
Loss before income tax from disposal groups held for sale includes the following specific expenses:				
Cost of sales				
Purchases	-	61,302	-	61,302
Freight	-	1,596	-	1,596
	<u>-</u>	<u>62,898</u>	<u>-</u>	<u>62,898</u>
Impairment losses - other assets				
VRB battery deposits held	(1,000)	-	(1,000)	-
VRB battery inventory	36,967	-	36,967	-
	<u>35,967</u>	<u>-</u>	<u>35,967</u>	<u>-</u>
Legal fees	-	44,583	-	44,583
Research and development	9,107	14,067	9,107	14,067
Unrealised foreign exchange loss	-	2,248	-	2,248



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Consolidated Group		Parent Entity	
2008	2007	2008	2007
\$	\$	\$	\$

NOTE 6 INCOME TAX EXPENSE

The prima facie tax, using tax rates applicable, on profit/ (losses) from ordinary activities differs from the income tax provided in the financial statements as follows:

Income tax expense/ (benefit) calculated at 30% (2007: 30%) of operating loss

(378,535)	(496,790)	(341,893)	(464,246)
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Tax effect of:

Non-deductible items/ other assessable

141,412	384,449	140,256	201,959
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Other-deductible/ non assessable

(629,741)	(55,622)	(629,519)	(37,736)
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Losses not brought to account

866,864	167,963	831,156	300,023
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Income tax expense

-	-	-	-
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The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

During the period it was determined that the company failed both the continuity of ownership test and the same business test for losses incurred prior to the acquisition of Cougar Energy UCG Pty Ltd. As a result, the tax losses available to be recovered have been reduced to those available to be recovered. It is not considered probable that these losses are to be recouped in the short term period and as such are not booked on the balance sheet.

Tax Revenue Losses

Unused Tax losses for which no deferred tax asset has been recognised

3,900,526	1,010,978	2,770,519	929,700
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Potential Tax Benefit at 30%

1,170,158	303,293	831,156	278,910
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Tax Capital Losses

Unused Tax losses for which no deferred tax asset has been recognised

452,452	452,452	119,371	119,371
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Potential Tax Benefit at 30%

135,736	135,736	35,811	35,811
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COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 7 NON-CURRENT ASSETS - DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

(a)Description

In April 2008, the Company commenced negotiations with VRB Power Systems, Inc in Canada to sell its remaining inventory of VRB Energy Storage Systems and certain Australian patents held by the Company in relation to that technology. Once again this decision is consistent with the Company's strategy of focussing its operations solely on underground coal gasification activities.

In recognition of the fact that negotiations have yet to be finalised, a disposal group of the Company's existing non-current VRB battery assets and liabilities has been classified as held for sale. However, the anticipated proceeds from the sale of the Company's existing Australian patents has not been recognised as an asset as at 30 June 2008 as their receipt is still contingent upon finalising sales negotiations with VRB Power Systems, Inc. These probable patent proceeds have instead been treated as a contingent asset and are disclosed separately in note (f) below.

An impairment loss of \$35,967 on the re-measurement of the disposal group's assets and liabilities to the lower of its carrying amount and its fair value less costs to sell has been recognised as indicated in note (b) below. Financial information relating to the VRB battery disposal group for the year is set out below in notes (b) and (c). Further information in relation to this disposal group is also set out in the segment reporting note (note 23).



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 7 NON-CURRENT ASSETS - DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE (CONTINUED)

(b) Financial performance of disposal groups

The financial performance presented below in both the 2008 and 2007 columns is for their full respective financial years.

	Notes	Consolidated Group		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
Revenue	3	8,427	-	8,427	-
Other Income	3	250,000	103,843	250,000	103,843
Expenses				-	-
Bank charges		(181)	-	(181)	-
Office costs		(3,455)	-	(3,455)	-
Salaries and super		(9,411)	-	(9,411)	-
Travel costs		(1,986)	-	(1,986)	-
Profit / (Loss) before return of grant		243,393	103,843	243,393	103,843
Government grants returned		(243,393)	-	(243,393)	-
Cost of sales		-	(62,898)	-	(62,898)
Foreign exchange losses		-	(2,248)	-	(2,248)
Impairment gain on battery deposits		1,000	-	1,000	-
Impairment loss on inventory		(36,967)	-	(36,967)	-
Legal fees		-	(44,583)	-	(44,583)
Patent fees		(2,437)	(2,630)	(2,437)	(2,630)
Research and development		304	(11,437)	304	(11,437)
Storage costs		(2,585)	(2,977)	(2,585)	(2,977)
Warranty claims		(970)	-	(970)	-
(Loss) before income tax expense		(41,655)	(22,930)	(41,655)	(22,930)
Income tax benefit – R&D tax offset		59,621	103,003	59,621	103,003
Profit after income tax expense		17,966	80,073	17,966	80,073
Basic earnings per share - cents		0.00	0.02		
Diluted earnings per share - cents		0.00	0.02		



COUGAR ENERGY LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008**

NOTE 7 NON-CURRENT ASSETS - DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE (CONTINUED)

(c) Cash flows of disposal groups

The cash flows presented below in both the 2008 and 2007 columns is for their full respective financial years.

	Notes	Consolidated Group		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Cash flows from disposal groups					
Net cash inflow / (outflow) from operating activities		(15,099)	-	(15,099)	-
Net cash inflow / (outflow) from investing activities		-	-	-	-
Net cash inflow / (outflow) from financing activities		-	-	-	-
Net increase / (decrease) in cash from disposal groups		(15,099)	-	(15,099)	-

(d) Non-current assets classified as held for sale

VRB battery inventory	10	31,200	68,169	31,200	68,169
VRB battery R+D tax loss offset receivable	9	59,621	103,003	59,621	103,003
VRB battery government grants receivable	9	-	275,000	-	275,000
Total non-current assets		90,821	446,172	90,821	446,172

(e) Non-current liabilities classified as held for sale

VRB battery deposits	18	1,000	2,000	1,000	2,000
Unearned income - government grants	18	-	250,000	-	250,000
GST collected on government grants	18	-	25,000	-	25,000
Total non-current liabilities		1,000	277,000	1,000	277,000

(f) Non-current contingent assets classified as held for sale but not brought to account

VRB Australian patent sales proceeds		20,801	-	20,801	-
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Refer to the description noted above for full details concerning this contingent asset.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Consolidated Group		Parent Entity	
2008	2007	2008	2007
\$	\$	\$	\$

NOTE 8 CASH AND CASH EQUIVALENTS

Cash at Bank on Hand	9,484,263	2,318,651	9,288,610	2,154,356
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The above figures are reconciled to cash at the end of the financial year as shown in the cash flow statement as follows:

For the purposes of the Cash Flow Statement, cash includes cash on hand and at call deposits, which have a short period to maturity net of outstanding bank overdrafts.

Cash at bank – at call	9,484,263	2,318,651	9,288,610	2,154,356
Term Deposits with short maturities	13,777	-	13,777	-
Bank Overdraft	(256,411)	-	(256,411)	-

Cash and cash equivalents per the statements of cash flow

9,241,629	2,318,651	9,045,976	2,154,356
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NOTE 9 CURRENT ASSETS – LOANS AND RECEIVABLES

Trade Receivables	-	275,000	-	275,000
Other Receivables	6,483	9,573	-	-
Research and Development Tax Offset Receivable	59,621	103,003	59,621	103,003
Prepayments	57,712	-	22,090	-
Goods and services tax (GST) recoverable	96,799	1,751	96,799	1,752
	220,615	389,327	178,510	379,754

Less assets included in a disposal group classified as held-for-sale:

Trade Receivables	-	(275,000)	-	(275,000)
Research and development tax offset receivable	(59,621)	(103,003)	(59,621)	(103,003)

160,994	11,324	118,889	1,752
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Provision For Impairment of Current Trade Receivables

Current trade receivables are non-interest bearing loans and generally on 30 day terms. A provision for impairment is recognised when there is objective evidence that an individual trade receivable is impaired. There is no objective evidence that these receivables are impaired.

Fair Values

In the absence of any significantly material amount in the loans and receivables accounts it has been determined that fair values are not materially different from carrying values.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

		Consolidated Group		Parent Entity	
		2008	2007	2008	2007
Notes		\$	\$	\$	\$
NOTE 10 CURRENT ASSETS – INVENTORIES					
Finished goods – at net realisable fair value		31,200	68,169	31,200	68,169
Less assets included in a disposal group classified as held-for-sale	7	(31,200)	(68,169)	(31,200)	(68,169)
		-	-	-	-

NOTE 11 OTHER FINANCIAL ASSETS

Current Financial Assets

- Term Deposits Securing Mining Leases	13,777	13,113	13,777	13,113
- Security Deposits – rental properties	1,600	-	1,600	-
Total current assets	15,377	13,113	15,377	13,113

Non-Current Financial Assets

Listed equity investments at fair value in:
Non-related entities

	-	259,953	-	259,953
Total non-current assets	-	259,953	-	259,953
Total financial assets	15,377	273,066	15,377	273,066

NOTE 12 NON-CURRENT ASSETS – LOANS TO SUBSIDIARY COMPANIES

Loans to related entities

Loans to subsidiary companies	-	-	2,179,056	293,539
Less impairment write-down	-	-	(293,539)	(293,539)
	-	-	1,885,517	-

Receivables due from controlled entities are for loans made in the ordinary course of business, primarily used to fund exploration expenditure. These loans are for an indefinite period. No interest is currently charged on these loans as from a groups perspective they are eliminated on consolidation. An impairment writedown was recognised in the 30 June 2007 financial year as Group's exploration projects were still in a very preliminary stage, making any assessment as to their continued development very difficult.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Notes	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
NOTE 13 NON-CURRENT ASSETS – INVESTMENTS IN SUBSIDIARY COMPANIES				
(a) Equity investments - unlisted				
Shares in subsidiary companies - at cost	-	-	5,974,451	5,974,451
Less allowance for impairment write-down	-	-	(274,359)	(274,359)
	-	-	5,700,092	5,700,092

There has been no movement in the allowance for impairment during the year. In the prior period an impairment writedown of \$274,359 was recorded increasing the impairment allowance as follows :

Allowance for impairment:

Balance at the beginning of the year	-	-	274,359	-
Impairment writedown during the year	-	-	-	274,359
Balance at the end of the year	-	-	274,359	274,359

(b) Ownership summary

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(a). Cougar Energy Limited's direct and indirect ownership interests in each its subsidiaries is set out below. Whilst Cougar Energy Limited only has a 47.83% (2007: 50%) 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. As a result of Cougar Energy (UK) Limited issuing 300 new ordinary shares during the financial year ended 30 June 2008, 200 of which were to parties outside the Group, Cougar Energy Limited's ownership interest has been diluted below 50%.

(i) Direct and indirect ownership interests of Cougar Energy Limited	Ownership Type	Country of Incorporation	Class of Equity Held	Equity Holdings *	
				2008 %	2007 %
Cougar Energy UCG Pty Ltd	Direct	Australia	Ord Shares	100.00%	100.00%
Cougar Energy (UK) Ltd	Direct & Indirect	United Kingdom	Ord Shares	47.83%	50.00%
Cougar Energy Pakistan (Private) Ltd	Indirect	Pakistan	Ord Shares	47.83%	0.00%
(ii) Direct and indirect ownership interests of Cougar Energy UCG Pty Ltd					
Cougar Energy (UK) Ltd	Direct	United Kingdom	Ord Shares	4.35%	0.00%
(iii) Direct and indirect ownership interests of Cougar Energy (UK) Limited					
Cougar Energy Pakistan (Private) Ltd	Direct	Pakistan	Ord Shares	100.00%	0.00%

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

(c) Parent Entity

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



COUGAR ENERGY LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008**

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
NOTE 14 PROPERTY, PLANT AND EQUIPMENT				
Computer equipment				
At cost	21,016	12,708	19,734	12,708
Less accumulated depreciation	(10,983)	(6,227)	(10,677)	(6,227)
Net carrying amount	10,033	6,481	9,057	6,481
Plant and equipment				
At cost	12,782	-	2,496	-
Less accumulated depreciation	(2,004)	-	(302)	-
Net carrying amount	10,778	-	2,194	-
Office equipment and furniture				
At cost	13,052	5,516	6,921	5,516
Less accumulated depreciation	(6,095)	(3,706)	(4,202)	(3,706)
Net carrying amount	6,957	1,810	2,719	1,810
Total property, plant and equipment	27,768	8,291	13,970	8,291

(a) Movements in carrying amounts

The movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of each financial year is presented below.

CONSOLIDATED GROUP	Computer equipment \$	Plant and equipment \$	Office furniture and equipment \$	Total Property, plant and equipment \$
Carrying amount as at 1 July 2006	2,200	-	2,260	4,460
Additions	5,373	-	-	5,373
Depreciation expense	(1,092)	-	(450)	(1,542)
Carrying amount as at 30 June 2007	6,481	-	1,810	8,291
Additions	8,309	12,782	7,534	28,625
Depreciation expense	(4,757)	(2,004)	(2,387)	(9,148)
Carrying amount as at 30 June 2008	10,033	10,778	6,957	27,768



COUGAR ENERGY LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008**

PARENT ENTITY

	Computer equipment \$	Plant and equipment \$	Office furniture and equipment \$	Total Property, plant and equipment \$
NOTE 14 PROPERTY, PLANT AND EQUIPMENT (continued)				
(a) Movements in carrying amounts (continued)				
Carrying amount as at 1 July 2006	2,200	-	2,260	4,460
Additions	5,373	-	-	5,373
Depreciation expense	(1,092)	-	(450)	(1,542)
Carrying amount as at 30 June 2007	6,481	-	1,810	8,291
Additions	7,025	2,496	1,405	10,926
Depreciation expense	(4,449)	(302)	(496)	(5,247)
Carrying amount as at 30 June 2008	9,057	2,194	2,719	13,970

**NOTE 15 NON-CURRENT ASSETS –
EXPLORATION ASSETS**

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
(a) Exploration Costs				
UCG projects – Kingaroy, Qld, Australia				
Mining tenements acquired – at fair value	2,500,000	2,500,000	-	-
Post acquisition exploration costs	1,989,117	273,540	-	-
	4,489,117	2,773,540	-	-
Other projects - Australia	-	2,655	-	2,655
Net accumulated exploration assets	4,489,117	2,776,195	-	2,655



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 15 NON CURRENT ASSETS – EXPLORATION ASSETS (continued)

(b) UCG tenements summary

Details in relation to all the mining tenements in which the consolidated group has an interest as at the end of each financial year are set out below.

Permit Holder	Permit Ref No. *	Projects Location	Current Status	Equity Interest	
				2008 %	2007 %
Cougar Energy UCG Pty Ltd	EPC 935 + 936	Condamine, Qld	Inactive	0%	0%
Cougar Energy UCG Pty Ltd	EPC 1017 + 1018	Injune, Qld	Inactive	0%	0%
Cougar Energy UCG Pty Ltd	EPC(A) 1041	Miles, Qld	Inactive	0%	0%
Cougar Energy UCG Pty Ltd	EPC 882	Kingaroy, Qld	Active	51%	51%
Cougar Energy Limited	MDL(A) 385	Kingaroy, Qld	Pending	51%	0%

- * = EPC Exploration Permit for Coal
 EPC(A) Application for Exploration Permit for Coal
 MDL(A) Application for Mineral Development Licence

The Condamine, Injune and Miles projects noted above were inactive as at 30 June 2008. Cougar Energy UCG Pty Ltd ("CEUCG") holds farm-in agreements over all four Queensland projects with SE Qld Energy Pty Ltd (currently a subsidiary of Cockatoo Coal Limited, although at the time of entering into these agreements SE Qld Energy Pty Ltd was a subsidiary of Metallica Minerals Limited). All agreements specified certain sums of money that CEUCG needed to spend over either a two or three-year period to earn an initial 51% equity interest in each project. The agreements also gave CEUCG the option of increasing its interest in each project to either 70% in the case of Kingaroy or 80% in the case of Condamine, Injune and Miles.

As a result of CEUCG not spending the initial specified sums to earn its 51% interest in the Condamine, Injune and Miles projects, these projects were considered to be inactive as at 30 June 2008. No valuation was placed upon these projects by Cougar Energy Limited at the time of acquiring CEUCG in September 2006. In terms of the Kingaroy project; notwithstanding that CEUCG has spent in excess of all the specified amounts entitling it to a 70% interest in EPC 882, CEUCG has not to date applied to SE Qld Energy Pty Ltd to have its extra 19% interest registered on the EPC, as it is currently in negotiations with Cockatoo Coal Limited to acquire 100% of all its Queensland tenements that are suitable for UCG purposes. Until such negotiations are finalised CEUCG's officially recognised interest in EPC 882 remains at 51%. A value of \$2,500,000 was placed on the Kingaroy project by Cougar Energy Limited at the time of acquiring CEUCG in September 2006.

On 7 December 2007 Cougar Energy Limited and SE Qld Energy Pty Ltd applied for a Mineral Development Licence ("MDL") over the bottom half of the UCG designated area within EPC 882 in preparation for the construction of its first UCG pilot plant on the Kingaroy site. Cougar Energy Limited's equity interest as noted on the application is 51%, although this will be varied once the negotiations with Cockatoo Coal Limited have been finalised. The permit number designated to this application MDL(A) 385.

(c) Expenditure commitments

As at 30 June 2007 and 2008, CEUCG has met all of its expenditure commitments under the original EPC 882 farm-in agreement. There are presently no expenditure commitments as at 30 June 2008 under Cougar Energy Limited's MDL(A) 385. Refer to note 31 for full details on all the other expenditure commitments of the consolidated group.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

Consolidated Group		Parent Entity	
2008	2007	2008	2007
\$	\$	\$	\$

NOTE 16 NON-CURRENT ASSETS – INTANGIBLE ASSETS

(a) Intangible Assets

Key employment contracts – at cost	3,367,989	3,367,989	-	-
Less accumulated amortisation	(1,473,495)	(608,298)	-	-
	1,894,494	2,759,691	-	-

(b) Explanation

Key employment services represents Cougar Energy UCG Pty Ltd's ("CEUCG") and Cougar Energy (UK) Ltd's ("CE(UK)") fair value ascribed to Dr Len Walker's services over the four years of his employment contract with Cougar Energy Limited ("CXY") from 29 September 2006 to 28 September 2010.

It represents the value that CEUCG and CE(UK) have placed on the future economic benefits that it will receive from Dr Walker's accumulated knowledge, expertise and industry contacts in relation to the commercial exploitation of Underground Coal Gasification processes.

This figure in no way forms part of any remuneration previously paid or payable to Dr Walker. It merely represents the value to CEUCG and CE(UK) of utilising Dr Walker's expertise.

The recognition of this identifiable intangible asset arose on 29 September 2006 when CXY (formerly Pinnacle VRB Limited) acquired 100% of the issued capital of CEUCG (formerly Cougar Energy Pty Ltd) and 50% of the issued capital of CE(UK). One of the pre-conditions of the share purchase agreement associated with these acquisitions was the employment of Dr Walker by CXY for an initial term of four years from the date of completion of that agreement.

It is anticipated that Dr Walker's knowledge and expertise will be gradually transferred over to CXY and/or CEUCG and CE(UK) within the initial four year term of his employment contract.

Accordingly, it is CEUCG's and CE(UK)'s policy to amortise this intangible asset over the four year life of Dr Walker's current employment contract.

Notes	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$

NOTE 17 CURRENT LIABILITIES – BORROWINGS

Unsecured loans

Bank overdraft	(256,411)	-	(256,411)	-
Loans from directors	-	(7,006)	-	-
	(256,411)	(7,006)	(256,411)	-

Due to the short-term nature of the unsecured loans (repayable within twelve months), the Directors consider the carrying amounts reflect their fair values. The Directors do not consider that there exists significant risk exposures from these borrowings.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	Notes	Consolidated Group		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
NOTE 18 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES					
Trade Creditors		(145,256)	(39,954)	(144,754)	(39,954)
Other Creditors		(1,000)	(2,000)	(1,000)	(2,000)
Accrued expenses		(20,000)	(155,430)	(20,000)	(155,430)
Payroll-related statutory creditors		(14,708)	(9,833)	(14,708)	(9,833)
GST Payable		-	(25,000)	-	(25,000)
Unearned income		-	(250,000)	-	(250,000)
Unissued securities – option conversions		(18,750)	-	(18,750)	-
		(199,714)	(482,217)	(199,212)	(482,217)
Less liabilities included in a disposal group classified as held-for-sale:					
Other Creditors	7	1,000	2,000	1,000	2,000
GST Payable	7	-	25,000	-	25,000
Unearned income	7	-	250,000	-	250,000
		(198,714)	(205,217)	(198,212)	(205,217)

The Directors consider the carrying amount of payables reflect their fair values. Trade creditors are generally settled within 30 days. The Group does not have any significant concentrations of credit risk.

NOTE 19 PROVISIONS - CURRENT

Provisions for:

Employee entitlements -annual leave		(10,178)	(3,287)	(11,369)	(3,287)
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COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

		Consolidated and Parent Entity		Consolidated and Parent Entity	
		2008	2007	2008	2007
	Note	Number	Number	\$	\$
NOTE 20 ISSUED CAPITAL					
(a) Share capital					
Ordinary shares					
Fully paid	(c),(g)	498,779,713	370,068,417	37,061,992	27,292,505
Partly paid	(d),(g)	-	40,000,000	-	40,000
Less share issue transaction costs		-	-	(535,240)	(253,840)
Add deferred tax credited on transaction costs		-	-	-	-
Total ordinary shares		498,779,713	410,068,417	36,526,752	27,078,665
(b) Call options over unissued ordinary shares					
Listed options					
Fully paid	(e)	155,288,704	194,000,000	136,078	170,000
Unlisted options					
Fully paid	(f),(h)	93,300,000	72,500,000	1,524,529	1,239,750
Total call options		248,588,704	266,500,000	1,660,607	1,409,750
Total all equity classes				38,187,359	28,488,415
Less share-based payments reseve	21(a)			(1,524,529)	(1,239,750)
Total contributed equity				36,662,830	27,248,665



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 20 ISSUED CAPITAL (continued)

(c) Movements in fully paid ordinary share capital

Allotment Date	Transaction details	Number of Securities	Issue Price \$	Gross Contributed Equity \$	Less Transaction Costs \$	Net Contributed Equity \$
1-Jul-2006	Opening balance	145,931,249	\$0.1349	19,683,390	(89,400)	19,593,990
6-Oct-2006	Share issue to vendors of CEUCG	145,000,000	\$0.0300	4,350,000	-	4,350,000
6-Oct-2006	Share issue for working capital	42,000,000	\$0.0225	945,000	(59,440)	885,560
9-Oct-2006	Share issue converting debt to equity	1,206,667	\$0.0300	36,200	-	36,200
15-Dec-2006	Share issue converting debt to equity	4,930,501	\$0.0300	147,915	-	147,915
23-Apr-2007	Share issue converting debt to equity	1,000,000	\$0.0300	30,000	-	30,000
28-Jun-2007	Share issue for working capital	30,000,000	\$0.0700	2,100,000	(105,000)	1,995,000
30-Jun-2007	Balances	370,068,417		27,292,505	(253,840)	27,038,665
12-Jul-2007	Conversion of partly paid ordinary shares	20,000,000	\$0.0200	400,000	-	400,000
16-Jul-2007	Conversion of partly paid ordinary shares	10,000,000	\$0.0200	200,000	-	200,000
23-Jan-2008	Conversion of partly paid ordinary shares	10,000,000	\$0.0200	200,000	-	200,000
20-May-2008	Listed options exercised	3,560,555	\$0.0509	181,148	-	181,148
21-May-2008	Listed options exercised	2,404,914	\$0.0509	122,353	-	122,353
22-May-2008	Listed options exercised	3,278,485	\$0.0509	166,797	-	166,797
23-May-2008	Listed options exercised	2,450,000	\$0.0509	124,647	-	124,647
27-May-2008	Listed options exercised	2,000,000	\$0.0509	101,753	-	101,753
30-May-2008	Listed options exercised	3,721,876	\$0.0509	189,355	-	189,355
2-Jun-2008	Listed options exercised	7,000,000	\$0.0509	356,134	-	356,134
3-Jun-2008	Share issue for working capital	7,140,000	\$0.1400	999,600	(49,980)	949,620
6-Jun-2008	Share issue for working capital	14,000,000	\$0.1400	1,960,000	(29,400)	1,930,600
6-Jun-2008	Listed options exercised	4,000,000	\$0.0509	203,505	-	203,505
9-Jun-2008	Listed options exercised	4,300,000	\$0.0509	218,768	-	218,768
10-Jun-2008	Share issue for working capital	28,860,000	\$0.1400	4,040,400	(202,020)	3,838,380
17-Jun-2008	Listed options exercised	5,293,865	\$0.0509	269,332	-	269,332
25-Jun-2008	Listed options exercised	701,601	\$0.0509	35,695	-	35,695
30-Jun-2008	Closing balances	498,779,713		37,061,992	(535,240)	36,526,752



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

NOTE 20 ISSUED CAPITAL (continued)

(d) Movements in partly paid ordinary share capital

Allotment Date	Transaction details	Number of Securities	Issue Price \$	Gross Contributed Equity \$	Less Transaction Costs \$	Net Contributed Equity \$
1-Jul-2006	Opening balance	40,000,000	\$0.0010	40,000	-	40,000
30-Jun-2007	Balances	40,000,000		40,000	-	40,000
12-Jul-2007	Conversion into fully paid ordinary shares	(20,000,000)	\$0.0010	(20,000)	-	(20,000)
16-Jul-2007	Conversion into fully paid ordinary shares	(10,000,000)	\$0.0010	(10,000)	-	(10,000)
23-Jan-2008	Conversion into fully paid ordinary shares	(10,000,000)	\$0.0010	(10,000)	-	(10,000)
30-Jun-2008	Closing balances	-		-	-	-

All of the partly paid shares listed above were issued at \$0.02 per ordinary share, but partly paid to \$0.001. The Company was entitled to call the amount unpaid on these shares (\$0.019 per share) after 08-11-2007 and elected to do so. The total amount paid up on these shares (\$0.02) has been transferred to the fully paid ordinary share account above.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 20 ISSUED CAPITAL (continued)

(e) Movements in listed fully paid call options over unissued shares

Allotment Date	Transaction details	Number of Securities	Issue Price \$	Gross Contributed Equity \$	Less Transaction Costs \$	Net Contributed Equity \$
1-Jul-2006	Opening balance	79,000,000	\$0.0009	70,000	-	70,000
6-Oct-2006	Share and option issue for working capital	100,000,000	\$0.0010	100,000	-	100,000
28-Jun-2007	Share and option issue for working capital*	15,000,000	\$0.0000	-	-	-
30-Jun-2007	Balances	194,000,000		170,000	-	170,000
20-May-2008	Listed options exercised	(3,560,555)	\$0.0009	(3,120)	-	(3,120)
21-May-2008	Listed options exercised	(2,404,914)	\$0.0009	(2,107)	-	(2,107)
22-May-2008	Listed options exercised	(3,278,485)	\$0.0009	(2,873)	-	(2,873)
23-May-2008	Listed options exercised	(2,450,000)	\$0.0009	(2,147)	-	(2,147)
27-May-2008	Listed options exercised	(2,000,000)	\$0.0009	(1,753)	-	(1,753)
30-May-2008	Listed options exercised	(3,721,876)	\$0.0009	(3,261)	-	(3,261)
2-Jun-2008	Listed options exercised	(7,000,000)	\$0.0009	(6,134)	-	(6,134)
6-Jun-2008	Listed options exercised	(4,000,000)	\$0.0009	(3,505)	-	(3,505)
9-Jun-2008	Listed options exercised	(4,300,000)	\$0.0009	(3,768)	-	(3,768)
17-Jun-2008	Listed options exercised	(5,293,865)	\$0.0009	(4,639)	-	(4,639)
25-Jun-2008	Listed options exercised	(701,601)	\$0.0009	(615)	-	(615)
30-Jun-2008	Closing balances	155,288,704		136,078	-	136,078

* = These options were issued as a free attaching option to 30,000,000 fully paid ordinary shares that were issued in June 2007 as part of one of the parent entity's share placements during that financial year. Refer to note 20(c) above for details concerning the share issue.

All listed options are exercisable at \$0.05 per option and expire on 30-12-2008. The original option subscription proceeds (\$0.0009 on average) associated with all exercised options has been transferred to the fully paid ordinary share account above. The exercise price proceeds (\$0.05) associated with all exercised options is also recorded in the above fully paid ordinary share account. Upon payment of the exercise price, each option entitles the holder to purchase one fully paid ordinary share in the capital of the Company.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 20 ISSUED CAPITAL (continued)

(f) Movements in unlisted fully paid call options over unissued shares

Allotment Date	Transaction details	Notes	Number of Securities	Issue Price \$	Gross Contributed Equity \$	Less Transaction Costs \$	Net Contributed Equity \$
1-Jul-2006	Opening balance		-	\$0.0000	-	-	-
6-Oct-2006	Options issued to vendors of CE UCG P/L	25(b)	72,500,000	\$0.0171	1,239,750	-	1,239,750
30-Jun-2007	Balances		72,500,000		1,239,750	-	1,239,750
23-Jan-2008	Management incentive options issued	25(a)	10,800,000	\$0.0264	284,779	-	284,779
19-Jun-2008	Tranche A options issued to project financier	25(c)	10,000,000	\$0.0000	-	-	-
30-Jun-2008	Closing balances		93,300,000		1,524,529	-	1,524,529

Upon payment of the exercise price, each option entitles the holder to purchase one fully paid ordinary share in the capital of the Company. The exercise price and expiry dates of the above unlisted options are as follows: Refer to note 25 for further details concerning all unlisted options on issue.

Allotment Date	Transaction details	Expiry Date	Exercise Price
6-Oct-2006	Options issued to vendors of CE UCG P/L	6-Oct-2009	\$0.0300
23-Jan-2008	Management incentive options issued	30-Nov-2010	\$0.1000
19-Jun-2008	Tranche A options issued to project financier	30-Jun-2011	\$0.2500

(g) 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 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.

(h) Fully and partly paid call options over unissued ordinary shares

All listed and unlisted options have no dividend or voting entitlements, nor do they carry any participation rights in respects of any proceeds from the winding up of the Company. Information relating to the Company's management incentive option plan, including details of options issued, exercised and lapsed during the year financial year and the options outstanding at the end of the financial year is set out in the Share-based Payment Note (25) below.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	Notes	Consolidated Group		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
NOTE 21 RESERVES AND ACCUMULATED LOSSES					
(a) Reserves					
Available-for-sale investments revaluation reserve		-	13,897	-	13,897
Share-based payments reserve - unlisted options (see (ii) below)		1,524,529	1,239,750	1,524,529	1,239,750
Foreign currency translation reserve		(28,573)	(8,891)	-	-
		1,495,956	1,244,756	1,524,529	1,253,647

Movements in reserves:

(i) Available-for-sale investments revaluation reserve

Balance at the start of the financial year	13,897	13,897	13,897	13,897
Revaluation	-	-	-	-
Transfer to net profit	(13,897)	-	(13,897)	-
Balance at the end of the financial year	-	13,897	-	13,897

(ii) Share-based payments reserve

Balance at the start of the financial year	1,239,750	1,239,750	1,239,750	1,239,750
Options issued to directors and employees	284,779	-	284,779	-
Balance at the end of the financial year	1,524,529	1,239,750	1,524,529	1,239,750

Share-based payments reserve comprises:

Vendor options	25(b)	1,239,750	1,239,750	1,239,750	1,239,750
Management options	25(a)	284,779	-	284,779	-
		1,524,529	1,239,750	1,524,529	1,239,750



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	Notes	Consolidated Group		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
NOTE 21 RESERVES AND ACCUMULATED LOSSES (continued)					
(iii) Foreign currency translation reserve					
Balance at the start of the financial year		(8,891)	-	-	-
Currency translation differences arising during the year		(19,682)	(8,891)	-	-
Balance at the end of the financial year		(28,573)	(8,891)	-	-

(b) Accumulated losses

Accumulated losses attributable to equity holders

of the parent entity	(22,609,736)	(20,475,963)	(21,541,075)	(20,401,432)
----------------------	---------------------	---------------------	---------------------	---------------------

Movements accumulated losses:

Balance at the start of the financial year	(20,475,963)	(18,853,947)	(20,401,432)	(18,853,947)
Net loss for the year after tax attributable to:				
Equity holders of the parent entity	(2,133,773)	(1,622,016)	(1,139,643)	(1,547,485)
Balance at the end of the financial year	(22,609,736)	(20,475,963)	(21,541,075)	(20,401,432)

(c) Nature and purpose of reserves

Available for sale financial assets reserve

The fair value reserve recognises the cumulative net change in the fair value of the available for sale investments until the investment is realised. Refer to the Statement of Changes in Equity for movements in this reserve account.

Share based payment reserve

This reserve is used to record the value of equity benefit provided as part of agreements entered into by the company during the year. Refer to note 24 and the remuneration section of the Director's Report for details.

Foreign currency translation reserve

This reserve is used to record the exchange differences arising on translation of foreign operations where the foreign operations functional currency is different from the Group's presentation currency.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 22 CAPITAL MANAGEMENT

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management are constantly adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

During the financial year ended 30 June 2008 management did not pay any dividends.

There has been no change to the strategy adopted by management to control the capital of the entity.

The gearing ratios for the year ended 30 June 2008 and June 2007 are as follows:

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Borrowings				
Borrowings	(256,411)	(7,006)	(256,411)	-
Trade and other payables	(198,714)	(205,217)	(198,212)	(205,217)
Total debt	(455,125)	(212,223)	(454,623)	(205,217)
Less cash and cash equivalents	9,484,263	2,318,651	9,288,610	2,154,356
Net cash and cash equivalents	9,029,138	2,106,428	8,833,987	1,949,139
Total contributed equity – ord shares	36,662,830	27,248,665	36,662,830	27,248,665
Total capital	45,691,968	29,355,093	45,496,817	29,197,804
Gearing ratio	0%	0%	0%	0%

The Group is not subject to any externally imposed capital requirements



COUGAR ENERGY LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008**

NOTE 23 SEGMENT REPORTING

(a) Primary reporting format –business segments

2008 CONSOLIDATED ENTITY	Continuing operations	Discontinued operations	All operations
	Underground coal gasification processes \$	Battery technology development \$	Consolidated totals prior to Minority Interests \$
Segment revenue			
Sales to external customers	-	-	-
Other revenue	152,870	8,427	161,296
Total segment revenue	152,870	8,427	161,296
Unallocated revenue	-	-	-
Total segment and consolidated revenue	152,870	8,427	161,296
Segment results			
Profit /(Loss) before income tax	(2,292,353)	(41,655)	(2,334,008)
Income tax expense / (benefit)	-	59,621	59,621
Segment and consolidated loss after Income	(2,292,353)	17,966	(2,274,387)
Segment assets and liabilities			
Total segment assets	16,072,013	90,821	16,162,834
Total segment liabilities	(465,303)	(1,000)	(466,303)
Net segment and consolidated assets	15,606,710	89,821	15,696,531
Other segment information			
Acquisitions of:			
Property, plant and equipment	28,624	-	28,624
Other non-current assets	1,712,922	-	1,712,922
Amortisation expense	865,197	-	865,197
Depreciation expense	9,450	-	9,450
Impairment losses	-	-	-
Deposits held	-	(1,000)	(1,000)
Inventories	-	36,967	36,967
Listed investments	120,713	-	120,713
Loss on sale of investments	3,254	-	3,254



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 23 SEGMENT REPORTING (continued)

(a) Primary reporting format –business segments (continued)

2007 CONSOLIDATED ENTITY	Continuing operations	Discontinued operations	All operations
	Underground coal gasification processes \$	Battery technology development \$	Consolidated totals prior to Minority Interests \$
Segment revenue			
Sales to external customers	-	-	-
Other revenue	17,400	-	17,400
Total segment revenue	17,400	-	17,400
Unallocated revenue	-	-	-
Total segment and consolidated revenue	17,400	-	17,400
Segment results			
Profit /(Loss) before income tax	(1,736,040)	(22,930)	(1,758,970)
Income tax expense / (benefit)	-	103,003	103,003
Segment and consolidated loss after Income	(1,736,040)	80,073	(1,655,967)
Segment assets and liabilities			
Total segment assets	8,147,219	446,172	8,593,391
Total segment liabilities	(215,511)	(277,000)	(492,511)
Net segment and consolidated assets	7,931,708	169,172	8,100,880
Other segment information			
Acquisitions of:			
Property, plant and equipment	5,374	-	5,374
Other non-current assets	6,144,184	-	6,144,184
Amortisation expense	608,298	-	608,298
Depreciation expense	1,542	-	1,542
Impairment losses			
Listed investments	206,836	-	206,836
Loss on sale of investments	173,904	-	173,904

(b) Secondary reporting format – geographical segments

The Group's UCG operations are concentrated predominantly within Australia with relatively insignificant preliminary operations within Pakistan and The United Kingdom.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 24 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

The following persons were directors of Cougar Energy Limited during the financial year.

(i) Chairman – non-executive

Malcolm McAully

(ii) Executive directors

Dr Len walker

Chief Executive Officer

(iii) Non-executive directors

Michael Dalling

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year.

Name:	Position:	Employer:
Andrew Brown	General Manager, UCG Projects	Cougar Energy Limited
Garry LeBlang	Chief Geologist	Cougar Energy Limited

All of the above persons were also key management personnel during the financial year ended 30 June 2007.

(c) Key management personnel compensation

The aggregate remuneration of the key management personnel of the Group as note in (a) and (b) above is set out below:

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Short-term employee benefits	430,853	240,206	430,853	240,206
Post-employment benefits	159,446	73,400	159,446	73,400
Long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payments	284,779	-	284,779	-
Total remuneration	875,078	313,606	875,078	313,606

The Group has taken advantage of the relief provided by the Corporations Regulation 2M.6.04 to transfer detailed remuneration disclosures concerning its key management personnel to the Directors Report. The relevant information is found in sections A-D of the Remuneration Report contained within the Directors Report accompanying these financial statements.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 24 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(d) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, 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 numbers of options over ordinary shares in the Company 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.

2008	Balance at the start of the year (No.)	Granted as remuneration during the year (No.)	Exercised during the year (No.)	Other changes during the year (No.)	Balance at the end of the year (No.)	Vested and exercisable (No.)	Unvested (No.)
Name:							
Directors of Cougar Energy Limited:							
Michael Dalling	-	2,100,000			2,100,000	700,000	1,400,000
Malcolm McAully	-	2,100,000			2,100,000	700,000	1,400,000
Dr Len Walker	46,972,750	-			46,972,750	46,972,750	-
Other key management personnel of the Group:							
Andrew Brown	-	4,200,000			4,200,000	1,400,000	2,800,000
Garry LeBlang	-	2,400,000			2,400,000	800,000	1,600,000
	46,972,750	10,800,000	-	-	57,772,750	50,572,750	7,200,000
2007							
Name:							
Directors of Cougar Energy Limited:							
Michael Dalling	-				-	-	-
Malcolm McAully	-				-	-	-
Dr Len Walker	-	46,972,750			46,972,750	46,972,750	-
Other key management personnel of the Group:							
Andrew Brown	-				-	-	-
Garry LeBlang	-				-	-	-
	-	46,972,750	-	-	46,972,750	46,972,750	-



COUGAR ENERGY LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008**

NOTE 24 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(d) Equity instrument disclosures relating to key management personnel (continued)

(iii) Share holdings

The numbers of fully paid ordinary shares in the Company 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, are set out below. There were no shares granted as remuneration during the financial years ended 30 June 2007 or 2008.

2008

Name:	Balance at the start of the year (No.)	Acquired during the year (No.)	Received during the year on the exercise of options (No.)	Other changes during the year (No.)	Balance at the end of the year (No.)
Directors of Cougar Energy Limited:					
Michael Dalling	1,000,000				1,000,000
Malcolm McAully	502,167				502,167
Dr Len Walker	93,945,500				93,945,500
Other key management personnel of the Group:					
Andrew Brown	-				-
Garry LeBlang	130,000				130,000
	95,577,667	-	-	-	95,577,667

2007

Name:	Balance at the start of the year (No.)	Acquired during the year (No.)	Received during the year on the exercise of options (No.)	Other changes during the year (No.)	Balance at the end of the year (No.)
Directors of Cougar Energy Limited:					
Michael Dalling	-	1,000,000			1,000,000
Malcolm McAully	-	502,167			502,167
Dr Len Walker	-	93,945,500			93,945,500
Other key management personnel of the Group:					
Andrew Brown	-	-			-
Garry LeBlang	-	130,000			130,000
	-	95,577,667	-	-	95,577,667



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 24 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(e) Loans to key management personnel

During the financial years ended 30 June 2007 and 2008 there have been no loans made to the directors of Cougar Energy Limited or any other key management personnel of the Group

(f) Other transactions with key management personnel

As at 30 June 2008, Innisfree Pty Ltd, an entity controlled by Dr Len Walker owns 632 (2007: 632) fully paid ordinary shares in the capital of Cougar Energy (UK) Limited, an entity currently controlled by Cougar Energy Limited. As at 30 June 2008, the total number of Cougar Energy (UK) Limited ordinary shares on issue was 2,300 (2007: 2,000).

Apart from the Cougar Energy (UK) Limited share ownership by Innisfree Pty Ltd and the reimbursement of expenses incurred in the ordinary course of business on behalf of the Group, there were no other transactions with key management personnel during the financial years ended 30 June 2007 and 2008.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 25 SHARE BASED PAYMENTS

(a) Employee option plan

Refer to section C(i) of the Remuneration report contained in the directors report for full details concerning the granting of all remuneration options

The following table summarises the unlisted remuneration options granted under the plan.

Consolidated and parent entity - 2008

Name	Grant Date	Expiry Date	Exercise Price \$	Assessed fair value at the grant date \$	No. of options outstanding at the start of the year (No.)	Granted during the year (No.)	Exercised during the year (No.)	Forfeited during the year (No.)	No. Of options outstanding at the end of the year (No.)	Vested and exercisable at the end of the year (No.)
Non-executive directors										
Michael Dalling	23-11-07	30-11-10	0.10	0.0415	-	2,100,000			2,100,000	700,000
Malcolm McAully	23-11-07	30-11-10	0.10	0.0415	-	2,100,000			2,100,000	700,000
Executive directors										
Len Walker					-				-	-
Executives										
Andrew Brown	23-11-07	30-11-10	0.10	0.0415	-	4,200,000			4,200,000	1,400,000
Garry LeBlang	23-11-07	30-11-10	0.10	0.0415	-	2,400,000			2,400,000	800,000
					-	10,800,000	-	-	10,800,000	3,600,000
Weighted average exercise price					\$0.00	\$0.10	\$0.00	\$0.00	\$0.10	\$0.10
Weighted average share price at the time of exercising the options							\$0.00			
Weighted average life remaining on options outstanding at the end of the period									2.42	years

No remuneration options were granted during the financial year ended 30 June 2007.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 25 SHARE BASED PAYMENTS (continued)

(a) Employee option plan (continued)

The fair values of all options, at their grant date, as noted above were determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for remuneration options granted during the year ended 30 June 2008 included:

Name	Grant Date	Expiry Date	Number of options granted (Number)	Exercise price \$	Spot share price at the grant date \$	Expected share price volatility* %	Risk-free interest rate at the grant date %	Expected dividend yield at the grant date %	Time to expiry** of the options (Year)
Non-executive directors									
Michael Dalling	23-11-07	30-11-10	2,100,000	0.10	0.08	98%	6.34%	-	2.25
Malcolm McAully	23-11-07	30-11-10	2,100,000	0.10	0.08	98%	6.34%	-	2.25
Executive directors									
Len Walker			-						
Executives									
Andrew Brown	23-11-07	30-11-10	4,200,000	0.10	0.08	98%	6.34%	-	2.25
Garry LeBlang	23-11-07	30-11-10	2,400,000	0.10	0.08	98%	6.34%	-	2.25
			10,800,000						

* = The expected share price volatility is based upon the historic volatility (based on the remaining life of the options)

** = Whilst all remuneration options issued during the financial year ended 30 June 2008 have a life of 3 years, a marketability discount has been applied against the time to maturity of these options in recognition of the fact that all of the Company's remuneration options are unlisted securities.

The total amount of the share-based payment associated with the granting of these remuneration options that has been recognised in the Group's result for the financial year ended 30 June 2008 was \$284,779 (2007: \$Nil).



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 25 SHARE BASED PAYMENTS (continued)

(b) Vendor options (continued)

During the financial year ended 30 June 2007 options were issued to the vendors of Cougar Energy UCG Pty Ltd. The following table summarises the details of the unlisted vendor options granted.

Name	Grant Date	Expiry Date	Exercise Price \$	Assessed fair value at the grant date \$	No. of options outstanding at the start of the year (No.)	Granted during the year (No.)	Exercised during the year (No.)	Forfeited during the year (No.)	No. Of options outstanding at the end of the year (No.)	Vested and exercisable at the end of the year (No.)
CE UCG vendors	29-09-06	06-10-09	0.03	0.0171	72,500,000				72,500,000	72,500,000
					72,500,000	-	-	-	72,500,000	72,500,000
Weighted average exercise price					\$0.03	\$0.00	\$0.00	\$0.00	\$0.03	\$0.03
Weighted average share price at the time of exercising the options							\$0.00			
Weighted average life remaining on options outstanding at the of the period									1.27 years	

The fair values of all options, at their grant date, as noted above were determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for remuneration options granted during the year ended 30 June 2007 included:

Name	Grant Date	Expiry Date	Number of options granted (Number)	Exercise price \$	Spot share price at the grant date \$	Expected share price volatility*	Risk-free interest rate at the grant date %	Expected dividend yield at the grant date %	Time to expiry** of the options (Year)
CE UCG vendors	29-09-06	06-10-09	72,500,000	0.03	0.038	95%	5.60%	-	2.70
			72,500,000						

* = The expected share price volatility is based upon the historic volatility (based on the remaining life of the options)

** = Whilst all remuneration options issued during the financial year ended 30 June 2008 have a life of 3 years, a marketability discount has been applied against the time to maturity of these options in recognition of the fact that all of the Company's remuneration options are unlisted securities.

The total amount of the share-based payment associated with the granting of these vendor options that has been recognised in the Group's result for the financial year ended 30 June 2008 was \$Nil (2007: \$1,239,750).



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 25 SHARE BASED PAYMENTS (continued)

(c) Project financier options (continued)

During the financial year ended 30 June 2008 options were issued to Direct Invest (Pte) Ltd upon signing a Memorandum of Understanding for the future financing of the Group's Kingaroy UCG project. The following table summarises the details of the unlisted project financier options granted.

Name	Grant Date	Expiry Date	Exercise Price \$	Assessed fair value at the grant date \$	No. of options outstanding at the start of the year (No.)	Granted during the year (No.)	Exercised during the year (No.)	Forfeited during the year (No.)	No. Of options outstanding at the end of the year (No.)	Vested and exercisable at the end of the year (No.)
Direct Invest (Pte) Ltd	09-06-08	30-06-11	0.25	0.0493	-	10,000,000	-	-	10,000,000	-
					-	10,000,000	-	-	10,000,000	-
Weighted average exercise price					\$0.00	\$0.25	\$0.00	\$0.00	\$0.25	\$0.00
Weighted average share price at the time of exercising the options							\$0.00			
Weighted average life remaining on options outstanding at the of the period									3.00	years

No project financier options were granted during the financial year ended 30 June 2007.

The fair values of all options, at their grant date, as noted above were determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for remuneration options granted during the year ended 30 June 2008 included:

Name	Grant Date	Expiry Date	Number of options granted (Number)	Exercise price \$	Spot share price at the grant date \$	Expected share price volatility*	Risk-free interest rate at the grant date %	Expected dividend yield at the grant date %	Time to expiry** of the options (Year)
Tranche A	09-06-08	30-06-11	10,000,000	0.25	0.15	68%	7.05%	-	2.675
			10,000,000						

* = The expected share price volatility is based upon the historic volatility (based on the remaining life of the options)

** = Whilst all remuneration options issued during the financial year ended 30 June 2008 have a life of 3 years, a marketability discount has been applied against the time to maturity of these options in recognition of the fact that all of the Company's remuneration options are unlisted securities.

The total amount of the share-based payment associated with the granting of these vendor options that has been recognised in the Group's result for the financial year ended 30 June 2008 was \$Nil (2007: \$Nil).



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 25 SHARE BASED PAYMENTS (continued)

(c) Project financier options (continued)

No share-based payment has been recorded in the Group's result for the financial year ended 30 June 2008 due to the non-market vesting conditions associated with the issue of these project financier options. Under the Memorandum of Understanding signed between Cougar Energy Limited and Direct Invest (Pte) Ltd the Tranche A options noted above only vest once Cougar Energy Limited achieves "financial close" on the first round of financing to be provided by Direct Invest (Pte) Ltd. "Financial close" occurs when Cougar Energy Limited has entered into a binding equity and / or debt financing commitment to raise approximately \$30 million and being in a position to call on and / or draw down cleared funds under that equity and / or debt financing commitment even if those funds are not drawn down. Accordingly, therefore, the vesting of these options is subject to and contingent upon the achievement of a future dated non-market event, whose likelihood of occurring, cannot be reliably determined at this stage.

The Memorandum of Understanding also calls for the issuing of 20,000,000 Tranche B options and 50,000,000 Tranche C options. All three tranches form part of the total remuneration payable to Direct Invest (Pte) Ltd for arranging the finance for the Group's Kingaroy project. The granting of the Tranche B and C options is conditional upon Cougar Energy Limited and Direct Invest (Pte) Ltd agreeing upon a financing plan for the Kingaroy project together with shareholder approval at the Company's next annual general meeting for the issue of these options together with an equal number of fully paid ordinary shares in the capital of the Company, should Direct invest (Pte) Ltd decide to exercise these options.

A related party of Direct Invest (Pte) Ltd currently owns 14,000,000 fully paid ordinary shares in the capital of the Company.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 26 RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Loss for the year after income tax attributable to equity holders				
of the parent entity	(2,133,773)	(1,622,016)	(1,139,642)	(1,547,486)
Add minority interests in loss for the year	(140,614)	(33,951)	-	-
Total loss for the year after income tax	(2,274,387)	(1,655,967)	(1,139,642)	(1,547,486)
Add / (less) adjustments for non-operating activities included in profit for the year after income tax				
Investing activities				
Realised net loss on the sale of listed equities	3,254	173,905	3,254	173,905
Realised (gain) / loss on foreign currencies	(2,634)	-	-	-
Interest	-	(409)	-	(409)
Amortisation expense - key employment services	865,197	608,298	-	-
Depreciation expense	9,450	1,542	5,247	1,542
Unrealised impairment loss on listed investments	120,713	206,836	120,713	774,734
Salaries and superannuation allocated to projects	(277,244)	-	(277,244)	-
Project costs included in accrued expenses	11,437	-	11,437	-
Project costs included in trade creditors	1,291	-	1,291	-
Project costs written off	2,655	-	2,655	-
Financing activities				
Share-based payments to directors	60,570	-	60,570	-
Share-based payments to employees	224,209	-	224,209	-
Share issue costs included in accrued expenses	105,000	-	105,000	-
Sub-totals carried forward to next page	(1,150,489)	(665,795)	(882,510)	(597,714)



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 26 RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES (continued)

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Sub-totals brought forward from previous page	(1,150,489)	(665,795)	(882,510)	(597,714)
Change in operating activities assets and liabilities				
Operating assets				
(Increase) / decrease in trade debtors	275,000	(143,690)	275,000	(99,060)
(Increase) / decrease in other debtors	43,382	(1,628)	43,382	(1,628)
(Increase) / decrease in security deposits - rental properties	(4,265)	-	(1,600)	-
(Increase) / decrease in closing stock	36,967	-	36,967	-
(Increase) / decrease in prepayments	(57,712)	-	(22,090)	-
(Increase) / decrease in GST Paid	(95,048)	-	(95,048)	-
Operating liabilities				
Increase / (decrease) in trade creditors	105,303	(165,913)	104,800	(165,913)
Increase / (decrease) in other creditors	(8,009)	-	(1,000)	-
Increase / (decrease) in accrued expenses	(135,430)	105,012	(135,430)	105,012
Increase / (decrease) in unearned income	(250,000)	250,000	(250,000)	250,000
Increase / (decrease) in FBT payable	6,348	-	6,348	-
Increase / (decrease) in PAYG tax withheld payable	132	-	132	-
Increase / (decrease) in SGC super payable	(1,605)	-	(1,605)	-
Increase / (decrease) in provision for annual leave	6,891	3,288	8,081	3,288
Increase / (decrease) in GST collected	(25,000)	-	(25,000)	-
Net cash outflow from operating activities before minority interests	(1,253,535)	(618,726)	(939,573)	(506,015)

NOTE 27 REMUNERATION OF AUDITORS

Amounts paid or due and payable to the auditors:

Auditing and reviewing the accounts	50,330	37,000	50,330	37,000
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There were no other payments made to the auditors during the financial years ended 30 June 2007 and 2008 that related to non-audit services.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 28 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The following table sets out in chronological order the material events that have occurred since 30 June 2008, involving the parent entity and / or its subsidiary companies. Where possible the financial impact of each event has been quantified.

Effective date	Transaction details and financial impact:
1 Jul 2008	The Company lodged two applications for Exploration Permits for Coal EPC(A) 1445 and EPC(A) 1448 over coal deposits that are potentially suitable for UCG purposes at Mackenzie in Queensland. As these permits have yet to be granted, there are no current expenditure commitments for these proposed leases. The Company has a 100% interest in both applications.
1 Jul 2008	The company appointed Mr Rodney Watson as its chief financial officer and joint company secretary.
3 Jul 2008	The Company seconded a project manager for the Kingaroy pilot gasification plant from Worley Parsons. The budgeted cost of this appointment is \$70,000 excluding GST.
21 Jul 2008	The Company entered into a twelve month lease of a serviced office in Brisbane. The total rent and outgoings for this lease will approximate \$67,242 excluding GST.
24 Jul 2008	Cougar Energy UCG Pty Ltd was granted an Exploration Permit for Coal EPC 1118 over a coal deposit that is potentially suitable for UCG purposes at Wandoan in Queensland. CEUCG has a 100% interest in this lease. Under this lease CEUCG has a commitment to spend \$300,000 over a three year period.
31 Jul 2008	The Company released its first JORC compliant resource estimate for the 400 MW Kingaroy power project. Initial estimates are that at least 73 million tonnes of coal exist within the power plant development area.
31 Jul 2008	During July 2008, 375,000 listed CXYO options were exercised at \$0.05 per share providing the Company with an additional \$18,750 in working capital.
18 Aug 2008	The Company appointed Mr Valeri Melik as its technology and projects manager.
31 Aug 2008	During August 2008, 2,500,000 listed CXYO options were exercised at \$0.05 per share providing the Company with an additional \$125,000 in working capital.
10 Sep 2008	The Company announced the signing of an underwriting agreement with Direct Invest (Pte) Ltd, the Company's Kingaroy project financier, for its listed options which expire on 31 December 2008. Under the terms of this agreement, Direct Invest (Pte) Ltd will take up and exercise at \$0.05 any options not exercised by existing option holders on 31 December 2008. This agreement guarantees that the Company will receive a further \$7,395,685 based on the current number of options on issue as at the date of this report, being 147,913,704
25 Sep 2008	The Company paid a \$50,000 (excluding GST) underwriting fee to Direct Invest (Pte) Ltd in relation to the underwriting of the Company's listed options.
26 Sep 2008	During September 2008, 14,500,000 listed CXYO options were exercised at \$0.05 per share providing the Company with an additional \$725,000 in working capital. In addition, 10,000,000 vendor options were exercised at \$0.03 per share providing the Company with \$300,000.



COUGAR ENERGY LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008**

NOTE 29 EARNINGS / (LOSS) PER SHARE

	Consolidated Group	
	2008	2007
	Cents	Cents
(a) Basic earnings / (loss) per share		
Loss after income tax from continuing operations attributable to the ordinary equity holders of the parent entity	(0.52)	(0.52)
Profit after income tax from discontinued operations	0.00	0.02
Loss after income tax attributed to the ordinary equity holders of the parent entity	(0.52)	(0.50)
(b) Diluted earnings / (loss) per share		
Loss after income tax from continuing operations attributable to the ordinary equity holders of the parent entity	(0.52)	(0.52)
Profit after income tax from discontinued operations	0.00	0.02
Loss after income tax attributed to the ordinary equity holders of the parent entity	(0.52)	(0.50)

As at 30 June the Company had issued options over unissued capital (refer to note 20). As the exercise of these options would decrease basic loss per share, these options are not considered dilutive.

(c) Reconciliations of earnings / (loss) in calculating earnings / (loss) per share

	Consolidated Group	
	2008	2007
	\$	\$
Basic earnings / (loss) per share		
Loss after income tax from continuing operations	(2,292,353)	(1,736,040)
Less loss after income tax from continuing operations attributable to minority interests	140,614	33,951
Loss after income tax attributable to the ordinary equity holders of the parent entity	(2,151,739)	(1,702,089)
Profit after income tax from discontinued operations	17,966	80,073
Loss after income tax attributable to ordinary equity holders in the parent entity used in calculating earnings / (loss) per share	(2,133,773)	(1,622,016)



COUGAR ENERGY LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008**

NOTE 29 EARNINGS / (LOSS) PER SHARE (continued)

**(c) Reconciliations of earnings / (loss) in calculating earnings
/ (loss) per share (continued)**

	Consolidated Group	
	2008	2007
	\$	\$
Diluted earnings / (loss) per share		
Loss after income tax attributable to the ordinary equity holders of the parent entity used in calculating basic earnings / (loss) per share	(2,133,773)	(1,622,016)
Add interest savings	-	-
Loss after income tax attributable to the ordinary equity holders of the parents entity used in calculating diluted earnings / (loss) per share	(2,133,773)	(1,622,016)

	Consolidated Group	
	2008	2008
	Number	Number
(d) Weighted average number of shares used as The denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings / (loss) per share	416,358,383	327,221,675
Add weighted average number of shares under option	232,522,951	205,780,823
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings / (loss) per share	648,881,334	533,002,498

(e) Information concerning the classification of securities

Options

All of the parent entity's unlisted vendor, management and project financier options 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. The options have not been included in the determination of basic earnings / (loss) per share. Details relating to all options on issue by the parent entity are set out in note 25 above.



COUGAR ENERGY LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 30 PARENT ENTITY

Cougar Energy Limited has no immediate or ultimate parent entity.

NOTE 31 COMMITMENTS

(a) Expenditure commitments

Currently the Group does not have any exploration expenditure commitment. Refer to note 15(c) above for further details.

(b) Finance leases

During the financial years ended 30 June 2007 and 2008 the group has not entered into any finance leases that give rise to any commitments.

(c) Operating leases

Non-cancellable operating leases – Group as lessee

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	115,346	25,523	115,346	25,523
Later than one year but within five years	228,872	17,526	228,872	17,526
Later than five years	-	-	-	-
	344,218	43,049	344,218	43,049

The Group leases various offices and houses 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.

NOTE 32 CONTINGENT LIABILITIES

The following contingent liabilities as at 30 June 2008 were identified by the parent entity and the group.

(a) Terms of Memorandum of Understanding signed with project financier

Under the amended terms of the Memorandum of Understanding entered into by the parent entity and Direct Invest (Pte) Ltd in relation to the provision of project finance for the Kingaroy UCG project, a financing plan for that project must be agreed upon by both parties by no later than 31 October 2008. In the event that the plan is not agreed upon by that date, Cougar Energy Limited will be obliged to pay Direct Invest (Pte) Ltd a fee of \$250,000 excluding GST. Whilst Cougar Energy Limited is well advanced with the preparation of this plan and in regular discussions with Direct Invest (Pte) Ltd about its progress, the plan's final completion date and therefore whether or not Cougar Energy Limited will have any obligation to Direct Invest (Pte) Ltd in relation to this fee remains uncertain.



COUGAR ENERGY LTD

DIRECTORS' DECLARATION

The directors of Cougar Energy Limited declare that:

- (a) in the directors' opinion the financial statements and notes on pages 40 to 105, and the remuneration disclosures that are contained in the Remuneration report in the Directors' report, set out on pages 18 to 25, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2008 and of their performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1; and
- (c) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*, the Corporations Act 2001 and the Corporations Regulations 2001; and
- (d) 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 been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2008, required by Section 295A of the Corporations Act 200.

Signed in accordance with a resolution of the directors

Dated in Melbourne on 30th day of September 2008.

Dr Len Walker
Director

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



Chartered Accountants
& Business Advisers

We have audited the accompanying financial report of Cougar Energy Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Cougar Energy Limited and the consolidated entity comprising Cougar Energy Limited 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with Australian Accounting Standards ensures that the financial statements and notes, 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 and fair presentation of the financial report 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 company's and consolidated entity's financial position as at 30 June 2008 and of their 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 consolidated financial statements and notes also comply with International Financial Reporting Standards, as disclosed in note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 25 of the directors' report for the year ended 30 June 2008. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Cougar Energy Limited for the year ended 30 June 2008, complies with section 300A of the Corporations Acts 2001.

PKF
Chartered Accountants

R A Dean
Partner

30 September 2008

Melbourne

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COUGAR ENERGY LTD

SHAREHOLDERS' INFORMATION – SUPPLEMENTARY DETAILS FOR THE YEAR ENDED 30 JUNE, 2008

The parent entity shareholder information presented below was applicable as at 26 September 2008.

(a) Distribution of equity securities

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

Distribution range			Listed fully paid ordinary shares (Number)	Listed fully paid options (Number)	Unlisted vendor options (Number)	Unlisted management options (Number)	Unlisted project financier options (Number)
1	-	1,000	79,046	729	-	-	-
1,001	-	5,000	2,229,938	20,700	-	-	-
5,001	-	10,000	6,061,480	130,463	-	-	-
10,001	-	100,000	92,326,209	9,380,050	-	-	-
100,001	-	and over	415,458,040	138,381,762	3	4	1
			516,154,713	147,913,704	3	4	1
Less than a marketable parcel			1,046,6675	32,859	-	-	-
Size of each marketable parcel			4,000	7,353	-	-	-

(b) Equity security holders

Twenty largest quoted equity security holders

The names and holdings of the twenty largest holders of quoted fully paid ordinary shares is listed below.

Name	Fully paid ordinary shares	
	Number held	Percentage of issued capital %
Innisfree Pty Ltd	93,745,500	18.16
Serec Pty Ltd	23,000,000	4.46
National Nominees Limited	20,719,717	4.01
Robert Flynn	15,000,000	2.91
Rubicon Nominees Pty Ltd	14,000,000	2.71
Colin Andrews	10,504,006	2.04
Michael Edgar	10,208,000	1.98
Colin and Paula Andrews	6,810,000	1.32
Donald Crombie	4,818,696	0.93
Lit Wick Enterprises Pty Ltd	4,400,000	0.85
Arnold Olschyna	4,000,000	0.77
Citigroup Nominees Pty Ltd	3,500,000	0.68
A L Lyster Pty Ltd	2,500,000	0.48
Timothy and Glenda Kennedy	2,500,000	0.48
Mitpan Investments Pty Ltd	2,500,000	0.48
HSBC Custody Nominees (Australia) Limited	2,088,157	0.40
Marek Jankowski	2,000,697	0.39
Brian Acheson	2,000,000	0.39
Michael Cullen	2,000,000	0.39
Foreign Dimensions Pty Ltd	2,000,000	0.39
	228,294,773	44.23



COUGAR ENERGY LTD

SHAREHOLDERS' INFORMATION – SUPPLEMENTARY DETAILS (continued) FOR THE YEAR ENDED 30 JUNE, 2008

The parent entity shareholder information presented below was applicable as at 26 September 2008.

(b) Equity security holders (continued)

Twenty largest quoted equity security holders

The names and holdings of the twenty largest holders of quoted fully paid options is listed below. All listed options are exercisable at \$0.05 and expire on 31 December 2008.

Name	Number held	Fully paid options
		Percentage of issued capital %
Colin and Paula Andrews	10,100,000	6.83
Donald Crombie	8,300,000	5.61
National Nominees Limited	5,700,000	3.85
Melbourne Capital Limited	5,500,000	3.72
Jennifer Bath	5,000,000	3.38
Somnus Pty Ltd	4,995,668	3.38
Bruce and Margret Mackenzie-Forbes	4,000,000	2.70
Peter Bennett	3,193,632	2.16
Allison Friday	3,000,000	2.03
Serec Pty Ltd	3,000,000	2.03
Almarti Prt Ltd	2,600,000	1.76
Katrina Head	2,500,000	1.69
Colin Andrews	2,250,000	1.52
Network Geotechnics Pty Ltd	2,210,000	1.49
Enmore Medical Centre Pty Ltd	2,164,000	1.46
Rodney Simmonds and Brian Moss	2,016,193	1.36
Arnold Olschyna	2,000,000	1.35
W A & S G Daniels Pty Ltd	2,000,000	1.35
Andrea Elliott	1,921,238	1.30
Willy Meir	1,710,000	1.16
	74,160,731	50.14

Unquoted equity securities

The names and holdings of all the holders of unquoted fully paid vendor options is listed below. All vendor options over unissued ordinary shares are exercisable at \$0.03 and expire on 6 October 2009.

Name	Number held	Vendor options
		Percentage of issued capital %
Innisfree Pty Ltd	36,972,750	59.16
Serec Pty Ltd	20,423,250	32.67
Michael Edgar	5,104,000	8.17
	62,500,000	100.00



COUGAR ENERGY LTD

SHAREHOLDERS' INFORMATION – SUPPLEMENTARY DETAILS (continued) FOR THE YEAR ENDED 30 JUNE, 2008

The parent entity shareholder information presented below was applicable as at 26 September 2008.

(b) Equity security holders (continued)

Unquoted equity securities

The names and holdings of all the holders of unquoted fully paid management options is listed below. All management options over unissued ordinary shares are exercisable at \$0.10 and expire on 30 November 2010.

Name	Management options	
	Number held	Percentage of issued capital %
Michael Dalling	2,100,000	19.44
Garry LeBlanc	2,400,000	22.23
Sally Mayne	4,200,000	38.89
Amanda McAully	2,100,000	19.44
	10,800,000	100.00

The names and holdings of all the holders of unquoted fully paid project financier options is listed below. All project financier options over unissued ordinary shares are exercisable at \$0.25 and expire on 30 June 2011.

Name	Project financier options	
	Number held	Percentage of issued capital %
Direct Invest (Pte) Ltd	10,000,000	100.00
	10,000,000	100.00

(c) Substantial holders

Substantial equity holders holding 5% or more of the total number of votes attached to voting shares in the parent entity are detailed below.

Name	Fully paid ordinary shares		All option* categories	
	Number held	Percentage of issued capital %	Number held	Percentage of issued capital %
Innisfree Pty Ltd	93,745,500	18.16	-	-
	93,745,500	18.16	-	-

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



COUGAR ENERGY LTD

SHAREHOLDERS' INFORMATION – SUPPLEMENTARY DETAILS (continued) FOR THE YEAR ENDED 30 JUNE, 2008

The parent entity shareholder information presented below was applicable as at 26 September 2008.

(d) Voting rights

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

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 share shall have one vote.

Options

The listed and unlisted options on issue have no voting rights.



COUGAR ENERGY

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