



ANNUAL REPORT 2012
COUGAR ENERGY LIMITED

Corporate Directory FOR THE YEAR ENDED 30 JUNE 2012

COUGAR ENERGY LIMITED

ACN 060 111 784

DIRECTORS

Mr Malcolm McAully

Chairman of the Board & Audit Committee Chairman

Dr Leonard Walker

Executive Director*

Ms Sarah-Jane Christensen

Non-Executive Director

Mr Rob Neill

Managing Director**

COMPANY SECRETARY

Ms Sarah-Jane Christensen[#]

Mr Rajeev Chandra^{##}

REGISTERED OFFICE

Suite 1002, Level 10

530 Little Collins Street

Melbourne Victoria 3000 Australia

Tel. + 61 3 9909 7200

Fax + 61 3 9909 7217

Website www.cougarenergy.com.au

PRINCIPAL VICTORIAN OFFICE

Same as the registered office

SHARE REGISTRY

Computershare Investor Services Pty Ltd

452 Johnston Street

Abbotsford Victoria 3067 Australia

Tel. + 61 3 9415 5000

Fax + 61 3 9473 2500

AUDITORS

BDO

Level 14, 140 William Street

Melbourne Victoria 3000 Australia

SOLICITORS

Holman Fenwick Willan

Level 36, 600 Bourke Street

Melbourne Victoria 3000 Australia

STOCK EXCHANGE HOME BRANCH

Australian Securities Exchange Limited (ASX)

Rialto Towers

Level 4, North Tower

525 Collins Street

Melbourne Victoria 3000 Australia

ASX SECURITIES CODE

Fully paid ordinary shares CXY

* Managing Director to 6 August 2012

** Appointed from 6 August 2012

[#] Resigned as Company Secretary on 21 November 2011

^{##} Appointed from 21 November 2011

COUGAR ENERGY LIMITED
TABLE OF CONTENTS
FOR THE YEAR ENDED 30 JUNE 2012

Table of Contents

Corporate Directory	2
Chairman's Report	4
Managing Director's Report.....	6
Directors' Report.....	10
Auditor's Independence Declaration	21
Corporate Governance Statement.....	22
Consolidated Statement of Financial Position	28
Consolidated Statement of Comprehensive Income	29
Consolidated Statement of Changes in Equity.....	30
Consolidated Statement of Cash Flows	32
Notes to the Financial Statements.....	33
Directors' Declaration	72
Independent Auditors Report	73
Shareholder Information	75

COUGAR ENERGY LIMITED
CHAIRMAN'S REPORT
FOR THE YEAR ENDED 30 JUNE 2012

Dear Shareholder

It is my pleasure to report to you that during the past 12 months, your Board of Directors has overseen a significant revitalisation of the Company, focussed on its decision to adopt an exciting Asian Business Strategy to establish and develop a sustainable Underground Coal Gasification (UCG) business in Asia.

It was only in June 2011 that we opened an office in Beijing with one prospective project under consideration in the Inner Mongolian Autonomous Region in The People's Republic of China. Since then we have assembled a portfolio of prospective UCG projects in China, Mongolia and Indonesia which hold great potential for the establishment of a commercial UCG project.

Our strategy is to concentrate on these three countries given their continued energy demand, vast coal resources and the willingness of the respective governments to favourably consider UCG projects as viable and sustainable options for the provision of clean energy in this fast growing region.

This attitude is in marked contrast to that of the Queensland Government authorities in closing down our Kingaroy UCG trial and slowing down the development of the UCG industry in the State based on political considerations and an improper assessment of environmental risk.

In the accompanying Managing Director's Report you can read in more detail about the projects under consideration in Asia. Management has focussed on initiating new projects, commercial and geological evaluations and assisting the authorities in each country to develop the required approval procedures specifically relevant to the establishment of UCG. This work has provided a sound base from which your company can grow across the Asian region.

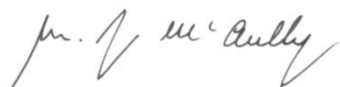
However, talking of the future it would not be complete without reference to our recent appointment of Mr Rob Neill as CEO and Managing Director of your company. This appointment was made after Company founder Dr Len Walker announced his intention to step down from these roles to focus specifically on UCG technology and project development as an Executive Director.

Rob has had significant experience at senior management level in the three main areas which are essential to the future development of your Company – commercial negotiations, UCG development and active business experience in Asia. He will add significant impetus to the implementation of our Asian Business Strategy and drive the future growth of the Company.

Under Rob's direction, the Company is focussing on monetising its coal assets in Queensland to support its UCG development strategy in Asia. As part of this process, the Company's Board continues to review all of its activities in Australia including its legal actions against the Queensland Government.

In welcoming Rob as Managing Director, I would also like to express my appreciation for the combination of creativity and persistence with which Dr Len Walker has steered the Company over the past six years, especially through the traumatic period in mid-2010. I look forward to a close

working relationship between Rob and Len as they drive the company forward over the next twelve months and to reporting substantial progress to you at our next AGM.

A handwritten signature in dark ink, appearing to read "Malcolm J McAully". The signature is fluid and cursive, with the first name "Malcolm" and last name "McAully" clearly distinguishable.

Malcolm J McAully
Chairman

27 August 2012

COUGAR ENERGY LIMITED
MANAGING DIRECTOR'S REPORT
FOR THE YEAR ENDED 30 JUNE 2012

Dear Shareholder

Over the past twelve months, Cougar Energy's plan to build a sustainable Underground Coal Gasification (UCG) business in Australia has been constrained by the Queensland Government's actions to force the closure of our trial site at Kingaroy.

In response to this action, the Board made the decision to focus your Company's future UCG development interests outside Australia, and more specifically in the Asian region.

I am pleased to report that we have now developed our Asian Business Strategy and added a significant portfolio of potential UCG projects in our three target countries of China, Mongolia and Indonesia.

The rate of progress in these countries has not been uniform, as the assessment of potential local partners, the availability of suitable coal deposits and negotiations with various local and national governments have all been necessary to judge whether viable UCG projects can be established in each country. While our initial activity in the Asian region commenced in China, it has transpired that progress towards creation of commercially viable UCG projects has progressed more rapidly in Indonesia and Mongolia.

We remain confident of our decision to focus on Asia and believe the region offers significant opportunities for us to commercialize UCG in the coming 12 months.

Indonesia

An active review of potential UCG opportunities in Indonesia commenced during the second half of 2011. This led to the signing of a Memorandum of Understanding with PT MedcoEnergi Mining International on 25 November 2011 to jointly assess the opportunity for introducing the technology into Indonesia and to set up a joint venture once suitable sites have been acquired for the development of UCG projects.

Over the past nine months, your Company and MedcoEnergi have assessed a range of coal deposits and project development opportunities with the focus now concentrating on three specific locations – one in South Sumatra, and two in East Kalimantan. Negotiations are currently in progress to secure the relevant coal tenements and to progress the preparation of joint venture documentation.

Development options for these prospects include:

- UCG gas/power plant (approximately 30MW) initially to provide electricity to the local population;
- Expansion of one or more of the power plants for connection into the national power grid;
- Conversion of syngas into Synthetic Natural Gas (SNG) for transport into the regional natural gas pipeline grid; and
- Use of syngas for conversion into methanol, ethanol or urea.

The selection from these options will vary between sites depending on the most appropriate end use, acceptable financial modeling and expected economic returns. Our preliminary assessments suggest that at remote locations a nominal 30 MW power plant using gas engines would be significantly more economic than existing local generation using diesel oil.

Your Company is confident that at least one of the project options referred to above will lead to the commencement of field work in the coming months, in anticipation of planning for a pilot project in 2013 as the first stage of commercial project development.

China

Your Company established its Beijing office in June 2011 with a view to generating and assessing potential UCG opportunities. Potential project interests have centered on relationships developed with two Chinese private companies, the DeTailong Group operating in Inner Mongolia and the Shanghai Limitless Group with coal interests in XinJiang Province.

Progress with both of these potential opportunities has been slow. Initial assessments of the XinJiang coal deposits conducted by our geologists have concluded that they do not appear to be suitable for UCG development at this stage.

Lengthy negotiations between DeTailong and the regional Government have been in progress to enable release of an appropriate coal block. We continue to discuss with Government the regulatory procedures to be applied to a potential UCG project. At the time of writing, negotiations for a revised agreement between DeTailong and local authorities are in progress and we remain hopeful that these negotiations can be concluded later this year.

Through our Beijing office, contact has also been made with a number of State Owned Enterprises (SOE) to gauge their interest in establishing UCG project joint ventures. Although these discussions are preliminary in nature, we are encouraged by the level of interest shown by these SOE's and by the evident value of our presence on the ground in Beijing.

China remains an integral part of our overall Asian business strategy and we continue to look for strong partners with suitable coal resources to progress the establishment of a UCG project in that country.

Mongolia

The rapid rate of growth of the Mongolian economy and its significant mineral and coal resources, makes it an obvious country for the development of long-term UCG projects in Asia, which may be directed to power production to replace existing aging power facilities, or for the longer term production of downstream petro-chemical products to improve the country's energy security.

Your Company's strategic approach to Mongolia has involved two parallel paths. The first is the development of a close working relationship with the Government, to assist in both assessing coal resources suitable for UCG development and to negotiate the regulatory controls necessary to allow the UCG technology to be successfully introduced. The second path has involved negotiations with a number of resources companies with coal assets in the country that will suit the application of UCG technology.

Negotiations are in progress with three companies holding coal assets in Mongolia which appear to be suitable for UCG development and Cougar Energy believes that in the coming year, these and other opportunities we are working on will form the basis of our long term strategy for this country.

Negotiations between the Mongolian Government and Cougar Energy commenced late last year to set a framework whereby the two parties could work together to introduce UCG technology into the country.

These negotiations were held up for some months prior to the recent elections, but have now resumed and your Company is confident that it has already established a good working relationship with senior officers in the relevant government ministries and looks forward to completing appropriate agreements in the coming months.

Mongolia remains a target country for us and we are encouraged to date by the desire of the Government to find alternative downstream uses for their coal asset – developing UCG technology in the country is a strong path to achieving this.

Strategic Summary

Our recent experiences and strong interest and support from Governments in our target Asian countries contrast starkly with the actions of the Queensland Government at our Kingaroy site. There was a time not so long ago when Queensland was the world leader in introducing UCG projects for long term sustainable commercial development that would have delivered cost competitive power. This position has been destroyed by the recent actions of the Queensland Government against your Company and other UCG operators in the State. The negative impact on the UCG industry has also been felt Australia-wide.

Fortunately, as with all resource industry activity, there is a global market. Cougar Energy's decision to progress its Asian Business Strategy is the most clearly delineated strategy for establishing our business in Asia. Interestingly each of the main contributors to Australia's past development of UCG have also shifted their focus overseas, at a time when other international interest in the technology is expanding rapidly.

Your Company also recently announced the intention to monetise the value of two of its coal assets in Queensland - EPC 1118 (MDLA 420) at Wandoan in the Surat Basin (for which the rights to UCG development will be retained) and EPC 1445 near Mackenzie, east of the Jellinbah open cut mine in the Central Bowen Basin which produces PCI coal of high value.

We formed a view that with the slow progress of UCG in Queensland coupled with the global demand for coal it was an opportune time to place these coal assets on the market. To date good interest has been received from National and International Resources and Energy companies for these assets. As you will be aware, I handed over the roles of CEO and Managing Director to Rob Neill on 6 August 2012. The Board is pleased to have secured Rob's services and I look forward to working with him in my new role as Executive Director with the key responsibilities of UCG technology and project commercialisation.



Dr Len Walker

Executive Director

(Managing Director to 6 August 2012)

27 August 2012

Introducing Rob Neill

(CEO and Managing Director appointed 6 August 2012)

I have accepted the roles of CEO and Managing Director of Cougar Energy with great enthusiasm, as I share with the Board a strong desire to commercialise the UCG technology across Asia.

I come to the company with a good understanding of UCG, proven Asian business experience and a strong commercial background which augers well for the creation of new investment opportunities for the Company going forward.

I fully support all of the initiatives the Company has taken to repair the damage resulting from the Queensland Government's actions in Queensland.

However, I am very excited about the progress being made in the development of new UCG project opportunities in China, Mongolia and Indonesia, and I look forward to driving the roll out of our Asian Business Strategy over the coming year.

With the strong support of the current Board and Management, we have had significant interest in monetising the value of the Company's current coal assets in Queensland. I believe that completion of this process will provide substantial financial flexibility to enable Cougar Energy to successfully achieve its long term objectives.

I look forward to addressing this meeting next year with evidence that the Company's past year of consolidation has set a solid platform for future growth of the Company for the benefit of all shareholders.



Rob Neill

CEO and Managing Director

(Appointed 6 August 2012)

27 August 2012

COUGAR ENERGY LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2012

The Directors of Cougar Energy Limited submit this Annual Report, together with the financial statements of the Consolidated Group (consisting of the Parent Entity and its controlled entities) for the financial year ended 30 June 2012, made in accordance with a resolution of the Directors.

DIRECTORS

The names and particulars of the qualifications, experience, special responsibilities and equity interests of the Directors in office during the financial year ended 30 June 2012 and up until the date of this Annual Report are set out below. Mr Malcolm McAully, Dr Len Walker and Ms Sarah-Jane Christensen were directors for the whole of the financial year and up to the date of this Annual Report. Mr Rob Neill joined the Board on 6 August 2012.

Name and Qualifications	Age	Experience	Listed Directorships in last 3 years	Special Responsibilities	Interests in Shares and Options
Rob Neill MBA, MPA	50	Appointed Managing Director on 6 August 2012. Mr Neill has over 20 years management experience in the resources sector, and holds an MBA and Masters in Professional Accounting (MPA), both from the University of Southern Queensland. He held positions of Executive General Manager for Bucyrus Australia Pty Ltd, and COO of Industree Limited, an ASX listed company. He has also held executive management roles with Repco, Hagemeyer and Hitachi. He held the position of Senior Commercial Manager for two years with Linc Energy Ltd, and was involved in a range of commercial negotiations related to the advancement of UCG technology.	None	Managing Director from 6 August 2012	None
Len Walker BE, PhD (Cantab), MBA, FAusIMM, FAIE	71	Appointed 9 October 2006. Dr Walker graduated in Civil Engineering specialising in geotechnical engineering, and spent 15 years practising as a consulting engineer, including 11 years as Managing Director of Golder Associates Pty Ltd. He has had over 20 years experience in the development of small resource companies, and has served as Managing Director of three ASX listed companies. His involvement in UCG commenced in 1982, and in 1996 he founded Linc Energy Pty Ltd, was Managing Director from 1996 to 2002, and was responsible for development of the successful UCG test burn at the Chinchilla, Queensland site. He founded Cougar Energy Pty Ltd in 2006 prior to its sale and listing in September 2006.	None	Managing Director to 6 August 2012	108,836,948 shares
Malcolm McAully B.Bus, Grad Dip Bus, MBA, GAICD	52	Appointed 10 December 2002. Mr McAully operates a management consulting business focusing on organisational performance and strategic planning trading as M J McAully Management Consulting. Currently he has four board Directorships and holds post-graduate qualifications in Business from the University of NSW, Bond University and University of Tasmania. Malcolm started his career in audit and moved to Lend Lease Financial Services as National Administration Manager – MLC Life. He moved to Tasmania in 1997 to take up the position of Group General Manager for Hazell Bros, a large civil construction and transportation company.	None	Non-executive director, Chairman and Chairman of the Audit Committee	620,865 shares
Sarah-Jane Christensen B.EC, LLB, LLM, MBA	47	Appointed 22 September 2010. Ms Christensen is a lawyer with over 20 years experience in the provision of legal and public company secretarial services for leading corporate organisations. Ms Christensen has specific expertise in the resources and financial services sectors.	None	Company Secretary to November 2011 and member of the Audit Committee	None

COUGAR ENERGY LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2012

COMPANY SECRETARY

Mr Rajeev Chandra (B.Com, DipProfAccy, CPA, CA, ACMA) was appointed Company Secretary on 21 November 2011 following the resignation of Ms Sarah-Jane Christensen as Company Secretary.

PRINCIPAL ACTIVITIES

During the financial year, the Company's principal activities were the identification and development of underground coal gasification (UCG) projects primarily in The People's Republic of China, Mongolia and Indonesia.

DIVIDENDS

No dividends or distributions were declared, recommended or paid to members during the financial year (2011: Nil).

REVIEW OF OPERATIONS

The net loss for the Consolidated Group for the financial year after income tax attributable to equity holders of the Parent Entity was \$3,543,473 (2011 loss: \$35,229,788). The prior year was heavily impacted by the impairment of the Kingaroy assets in Queensland.

Kingaroy, Queensland

During the reporting period the Kingaroy site remained subject to the Environmental Protection Order which was formally served on the Company on 17 July 2010. This Order does not permit the Company to conduct gasification activities at the site. In July 2011 the Company was served with an Amended Environmental Authority by the then responsible Queensland Government department known as the Department of Environment and Resource Management (DERM). The amendments also have the effect of not allowing the Company to continue its UCG trial on the Kingaroy site.

In late September 2011 and October 2011 the Company initiated two separate legal actions in the Queensland Courts:

- an Appeal to the Planning and Environment Court seeking, inter alia, orders to overturn the amendments to the Environmental Authority for the Kingaroy site which do not allow the Company to continue its UCG trial; and
- an action in the Supreme Court against the State of Queensland and named government department officials seeking damages for the loss caused by the close down of the Kingaroy site due to negligence and breach of statutory authority.

Preparation work in order to set both of these cases down for hearing is continuing.

In July 2011 the Company also received a Complaint and Summons from DERM alleging three contraventions of the Kingaroy site Environmental Authority. The Company is contesting each count. Should the Company be found guilty of any count, the maximum fine the court may impose is \$832,500 per count. DERM may also seek, although it has not done so to date, an order that the Company pay rehabilitation, compensation, investigation, court and legal costs to DERM. The Company has accordingly recorded this in Note 29 as a contingent liability.

Wandoan, Queensland

Exploration and development work on the Company's tenements at Wandoan for the purposes of UCG projects has been deferred until the Queensland Government's decision on the future of UCG in Queensland. Since balance date the Company announced that it is seeking to divest this tenement.

COUGAR ENERGY LIMITED
DIRECTORS' REPORT (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2012

REVIEW OF OPERATIONS (CONT'D)

Asia

Reference is drawn to the Managing Director's Report in respect of detailed activities in Asia.

Pakistan

The Company's subsidiary Cougar Energy (UK) Limited's tenement in the Thar Coal Deposit expires in September 2012. The Directors of the parent company have provisioned for a write down of the equity accounted value of the exploration asset in the Thar Desert Project and related items.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Contributed equity increased during the financial year by \$450,000 as a result of issues of fully paid shares (55,827,145) to The Australian Special Opportunity Fund LP (ASOF). As at balance date there was an amount of \$100,000 shown as unissued shares which were later issued in August as per the arrangements with ASOF. These figures are gross of transaction costs.

The Company entered into a security purchase agreement with ASOF on 24 February 2012 (ASOF Agreement), which was announced to the market on 27 February 2012. The ASOF Agreement makes provision for the Company to access funding for a period of up to twenty-four (24) months from the date of entering the ASOF Agreement through the following instruments:

- (a) an unsecured loan which with shareholder approval given on 3 April 2012 converted to a convertible security (Convertible Security) in the amount of \$375,000; and
- (b) share subscription tranches by ASOF of \$100,000 per month, which subject to mutual agreement in respect of any particular month, can be increased to \$400,000 (up to an aggregate of \$9,325,000).

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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

Effective Date	Transaction Details and Financial Impact:
6 August 2012	<p>As announced to the Australian Securities Exchange (ASX) on 24 July 2012, Mr Rob Neill was appointed as Chief Executive Officer and Managing Director of the Company. He commenced his role on 6 August 2012. He also accepted an invitation to join the Board of Directors on that day.</p> <p>Dr Len Walker stepped down as Chief Executive Officer and Managing Director on the same day. He remains on the Board as Executive Director – Technology and Commercialisation.</p>
17 August 2012	<p>The Company announced to the ASX that it had placed its Mackenzie (EPC 1445 Bowen Basin Queensland) and Wandoan (EPC 1118 MDLA 420 Surat Basin Queensland) coal tenements for divestment. These are shown as Exploration and Evaluation Assets in the financial statements.</p>
17 August 2012	<p>The Company under its funding arrangements with The Australian Special Opportunity Fund LP (ASOF) issued 20,000,000 shares to raise \$100,000. These shares were shown as unissued shares in the financial statements as at 30 June 2012.</p>
27 August 2012	<p>Based on notice given by The Australian Special Opportunity Fund LP (ASOF), the sum of \$250,000 of the Convertible Security (out of a total of \$375,000) between ASOF and the Company was converted to shares. The Company issued 30,000,000 new shares and ASOF capitalised 20,000,000 shares previously issued to it in a collateral account.</p>

COUGAR ENERGY LIMITED
DIRECTORS' REPORT (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2012

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

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

ENVIRONMENTAL REGULATION

The Company has no additional matters to report other than the details provided in the Review of Operations mainly in relation to its Kingaroy site.

MEETINGS OF DIRECTORS

Eleven (11) Directors' meetings and four (4) Audit and Risk Committee meetings were held during the financial year ended 30 June 2012.

Director's Name	<u>Full Board</u>		<u>Audit and Risk Committee</u>	
	Number of meetings held whilst in office	Number of meetings attended	Number of meetings held whilst in office	Number of meetings attended
Len Walker ^[1]	11	11	-	-
Malcolm McAully	11	11	4	4
Sarah-Jane Christensen	11	11	4	4

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

DIVERSITY

The Company strives to create a diverse workforce through:

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

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

The following table sets out the number of employees within the Company as at 1 July 2011 and 30 June 2012. Whilst the Company's project at Kingaroy remains on care and maintenance, the Company is only in a position to employ a small number of staff. This has affected the Company's diversity targets for the short to medium term.

	30 June 2012			1 July 2011		
	Male	Female	Total	Male	Female	Total
Directors	2	1	3	2	1	3
Executives	4	0	4	5	0	5
Non-executives	3	1	4	2	1	3
Total number	9	2	11	9	2	11
Percentage of Total Employees	82%	18%	100%	82%	18%	100%

COUGAR ENERGY LIMITED
DIRECTORS' REPORT (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2012

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 key management personnel for the financial year ended 30 June 2012. The information provided within this report has been audited, as required by section 308(3C) of the Corporations Act 2001. The report is set out under the following main headings.

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

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

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

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 in consultation with external remuneration consultants as required.

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

ASX listing rules requires that the aggregate non-executive directors remuneration shall be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 26 November 2010, where the shareholders approved an aggregate remuneration of \$250,000.

During the financial year ended 30 June 2012, the company engaged Pacific Search Partners Pty Ltd, remuneration consultants, to assist with the recruitment of a new CEO, review its existing remuneration policies and provide recommendations on how to improve its Short-Term incentives (STI) programme and Long-Term Incentives (LTI) programme. Pacific Search Partners Pty Ltd was paid a total of \$71,687.

Pacific Search Partners Pty Ltd was engaged by, and reported solely to the Chairman. The Board is satisfied that the remuneration recommendations were free from undue influence from key management personnel.

The Company received 89% 'for' votes in relation to its remuneration report for the year ended 30 June 2011. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

(B) Details of Remuneration

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

Rajeev Chandra, B.Com, DipProfAccy, CA, CPA, ACMA, CSA (Cert), MAICD

Chief Financial Officer (appointed Company Secretary from 21 November 2011)

Mr Chandra a graduate of the University of Auckland, is a Chartered Accountant with 20 years Australasian experience having acquired senior finance, IT, and commercial management experience in both the private and public sectors. His industry experience includes Chartered Accounting, Education, Health, and the Energy Retail and Distribution sectors in Australia and New Zealand. Prior to joining the Company in 2010, his previous roles were with a US Fortune 40 Multinational company managing the finance, IT and commercial functions of one of its Australian divisions including serving operational management stints in sales and general management.

COUGAR ENERGY LIMITED
DIRECTORS' REPORT (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2012

REMUNERATION REPORT (AUDITED) (CONT'D)

(B) Details of Remuneration (Cont'd)

Kevin Garner, C Eng, FIMMM, MCIWM

General Manager - Asia

Mr Garner is a Chartered Engineer with over 26 years industry experience in the coal and clean energy sectors working for leading international consulting firm Wardell Armstrong and clean energy developers, Sino Gas and Energy and Sindicatum Carbon Capital. His experience covers all aspects of project origination and execution including the establishment of local resources and in-country capabilities to meet operational delivery needs. In the last 11 years, Mr Garner has worked extensively in China and South East Asia identifying and developing clean energy projects.

Brad Glynne, B.Juris, LLB

General Manager – Corporate Finance & Investor Relations

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

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

General Manager - Project Services

Mr Melik graduated as an Electrical Engineer from the University of Oil and Chemistry (currently known as the Azerbaijan State Oil Academy) in the former USSR. He successfully completed a post graduate research program in High Voltage Engineering at RMIT University and was admitted to the degree of Master of Engineering. Mr Melik has had an engineering career in Australia spanning 19 years. Mr Melik has led and successfully managed operations of multiple international teams at BetzDearborn (water management automation), Fujitsu (telecommunication/power generation), Autoliv (automotive testing), Downer Engineering (electrical/mechanical/data centres) and Utilacor (electrical/power generation/demand side management). He commenced at Cougar Energy as a Corporate Engineering Manager in 2008 before being promoted to his current role in early 2010.

Total remuneration for key management personnel fell by 10.4% compared to the previous financial year and fell by 5.5% when excluding a termination payment and share-based payments recorded in the previous financial year 2011. There was no increase in cash salaries of key management personnel in the financial year ending 30 June 2012.

Name	Position held
Directors	
Len Walker	Managing Director to 6 August 2012
Malcolm McAully	Non-Executive Director and Chairman of the Board and Audit and Risk Committee
Sarah-Jane Christensen	Non-Executive Director and Company Secretary ⁽¹⁾
Rob Neill	Managing Director from 6 August 2012
Executives	
Rajeev Chandra	Chief Financial Officer & Company Secretary ⁽²⁾
Kevin Garner	General Manager - Asia
Brad Glynne	General Manager - Corporate Finance and Investor Relations
Valeri Melik	General Manager - Project Services
Former Directors/ Executives	
Andrew Brown	General Manager – Technology (until 23 rd December 2011)

NOTES:

(1) Company Secretary to 21 November 2011.

(2) Additionally appointed Company Secretary on 21 November 2011.

Details concerning the remuneration of the Directors of the Company and the other key management personnel of the Group during the financial year ended 30 June 2012 are set out in the next section.

COUGAR ENERGY LIMITED
DIRECTORS' REPORT (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2012

REMUNERATION REPORT (AUDITED) (CONT'D)

(B) Details of Remuneration (Cont'd)

Name	Short-Term Employee Benefits	Non Monetary Benefits	Post- Employment Benefits	Share-Based Remuneration	Relative Proportion Of:		
	Cash Salary and Fees \$	Parking/ Vehicle/Other \$	Super- annuation (#) \$	Management Options \$	Total Remuneration \$	Fixed Remuneration %	Performance Related Remuneration %
2012							
Directors							
Len Walker	250,000	33,313	50,000	-	333,313	100%	-
Malcolm McAully (1)	89,194	-	17,210	-	106,404	100%	-
Sarah-Jane Christensen (2)	87,250	-	7,875	-	95,125	100%	-
Executives							
Rajeev Chandra	188,041	-	21,775	-	209,816	100%	-
Kevin Garner (3)	228,650	57,429	-	-	286,079	100%	-
Brad Glynne	190,016	-	41,575	-	231,591	100%	-
Valeri Melik	183,750	-	15,775	-	199,525	100%	-
Former Executives							
Andrew Brown (4)	126,797	-	12,503	-	139,300	100%	-
Remuneration Totals	1,343,698	90,742	166,713	-	1,601,153	100%	-

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

(1) Payments to Mr McAully include consulting fees totalling \$35,194 (2011: \$23,800) through MJ McAully Management Consulting.

(2) Payments to Ms Christensen include fees totalling \$37,250 (2011: \$137,763) for company secretarial services through Sarjan Consulting Pty Limited, a company of which Ms. Christensen is a Director.

(3) Mr Garner's payments are translated to Australian Dollars during the year.

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

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

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

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

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

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

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

COUGAR ENERGY LIMITED
DIRECTORS' REPORT (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2012

REMUNERATION REPORT (AUDITED) (CONT'D)

(C) Service Agreements

The remuneration and other terms of employment for the 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 may include a base salary, superannuation, salary sacrificed superannuation, reimbursement of professional fees, provision of a motor vehicle and eligibility for participation in the Company's Employees', Officers' and Consultants Option Plan 2007. All contracts with executives may be terminated early by either party with typically three months notice, subject to termination payments based on no misconduct as detailed below. Other major provisions of the agreements relating to the remuneration of executives are set out below.

	Agreement Term	Start date	End date	Base salary including super- annuation \$(1)	Other Benefits \$	Notice period required (months)
Directors						
Len Walker (2)	-	29-09-2006	28-09-2011	300,000	Vehicle	6 months
Rob Neill (3)	n/s	06-08-2012	n/s	320,000	-	6 months
Executives						
Rajeev Chandra (4)	n/s	03-09-2010	n/s	209,816	Professional Fees	3 months
Kevin Garner (5)	3 years	01-06-2011	01-06-2014	233,067	Housing & Welfare	3 months
Brad Glynne (6)	n/s	04-05-2009	n/s	231,591	n/s	3 months
Valeri Melik	n/s	18-08-2008	n/s	199,525	n/s	3 months

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

n/s = Not specified in the respective agreement.

(1) = Actual Base salary and statutory superannuation guarantee contribution for the period of 12 months.

(2) = Dr Walker's original service agreement, expired 2011. Unless terminated it continues indefinitely until renegotiated. The service agreement between the Company and Dr Len Walker provides for the payment of a royalty incentive, based upon the energy content of the syngas and/or liquid hydrocarbons generated by any commercial UCG plant which is commissioned by the Company during the term of his service agreement. For every gigajoule of energy produced, Dr Walker will be entitled to receive one cent. If a commercial plant's energy producing capacity is expanded (whether prior to or after the termination of Dr Walker's service agreement) then the incentive royalty must be calculated by reference to the expanded production capacity. Dr Walker's royalty entitlement is perpetual and does not cease upon the termination of his service agreement or his death.

(3) = Under Mr Neill's employment contract, he has been initially offered three tranches of share based compensation. Each tranche consists of 1,000,000 options with exercise prices of \$0.02,\$0.04,\$0.08 per share for each respective tranche and full vesting to occur over two years, subject to shareholder approval at the Company's next Annual General Meeting. Mr Neill is also eligible to participate in short and long term incentive schemes as determined by the Company from time to time.

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

(5) = Translated at the foreign currency rate of \$1AUD = 6.43592 RMB at 30 June 2012.

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

COUGAR ENERGY LIMITED
DIRECTORS' REPORT (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2012

REMUNERATION REPORT (AUDITED) (CONT'D)

(D) Share-Based Remuneration

Management Share Options

American call options over unissued fully paid ordinary shares in the capital of the Company are granted under the Company's Employees', Officers' and Consultants 2007 Option Plan, which was approved by shareholders at the 2007 and 2010 annual general meetings. The Option Plan is designed to provide long-term incentives for Executives and Consultants to deliver long-term shareholder returns, and is linked to the Company's share price performance. Under the Plan, eligible participants are granted options, which only vest after certain vesting conditions have been satisfied, and the executives or consultants are still employed by the Group at the end of the vesting period. Participation in the Plan is at the Board's discretion. No executive has a contractual right to receive any guaranteed benefits. The exercise price and vesting conditions are determined by the Company's Directors, in accordance with the Plan. All options have a staggered vesting period over three years. The total fair value of these options is being recognised progressively on a pro-rata basis over each option's respective vesting period. Once vested, the options remain exercisable until their expiry. The options are granted for no consideration and carry no dividend or voting entitlements. When exercised, each option converts into one fully paid ordinary share in the capital of the Company. The maximum number of unexercised options which can be issued under the Plan at any one time is 30 million.

No options were issued to Company Directors or Employees or Consultants in the 2012 financial year. All previous grants of options have expired.

Name	Number of Options Granted During the Financial Year		Number of Options Vested During the Financial Year		Number of Options Lapsed During the Financial Year	
	2012	2011	2012	2011	2012	2012 (\$)*
Executives						
Brad Glynn	-	-	-	1,700,000	(5,000,000)	(175,990)
Valeri Melik	-	-	-	800,000	(2,400,000)	(81,840)
Total	-	-	-	2,500,000	(7,400,000)	(257,830)

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

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

Employee Share Scheme

The Company does not have an employee share scheme.

COUGAR ENERGY LIMITED
DIRECTORS' REPORT (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2012

REMUNERATION REPORT (AUDITED) (CONT'D)

(E) Additional Information

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

Measures	2012 \$	2011 \$	2010 \$	2009 \$	2008 \$
Revenue	293,682	273,020	393,043	400,546	152,870
Total loss before income tax	(4,239,995)	(35,985,750)	(4,153,371)	(3,003,477)	(2,274,387)
Total loss after income tax	(3,557,384)	(35,278,576)	(4,153,371)	(3,003,477)	(2,274,387)
Key management remuneration	1,601,153	1,786,619	1,717,773	1,288,867	875,078
Per Share Measures					
Share price at the:					
- Start of the financial year	0.017	0.08	0.10	0.16	0.10
- End of the financial year	0.006	0.017	0.08	0.10	0.16
Dividends paid per share	-	-	-	-	-
Earnings/(Loss) per share:					
- Basic (cents)	(0.31)	(3.4666)	(0.0048)	(0.0052)	(0.0052)
- Diluted (cents)	(0.31)	(3.4666)	(0.0048)	(0.0052)	(0.0052)

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

COUGAR ENERGY LIMITED
DIRECTORS' REPORT (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2012

LOANS TO DIRECTORS AND EXECUTIVES

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

SHARES UNDER OPTION

There were no shares under option at the end of the financial year with all employee share options having lapsed.

INDEMNIFICATION OF OFFICERS

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

INDEMNIFICATION OF AUDITORS

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

NON-AUDIT SERVICES

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

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

There are no officers of the Company who are former partners of BDO.

AUDITOR'S INDEPENDENCE DECLARATION

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

AUDITOR

BDO (previously trading as PKF) continue in office as the Company's auditor in accordance with section 327 of the Corporations Act 2001.

RESOLUTION OF THE DIRECTORS

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

L. H. Walker

Dr Len Walker
Director

27 August 2012
Melbourne



Tel: +61 3 9603 1700
Fax: +61 3 9602 3870
www.bdo.com.au

Level 14, 140 William St
Melbourne VIC 3000
GPO Box 5099 Melbourne VIC 3001
Australia

DECLARATION OF INDEPENDENCE BY JAMES MOONEY TO THE DIRECTORS OF COUGAR ENERGY LIMITED

As lead auditor of Cougar Energy Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit;
- and
- 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 period.

James Mooney
Partner

BDO East Coast Partnership
Melbourne, 27 August 2012

BDO East Coast Partnership ABN 83 236 985 726 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO East Coast Partnership and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.

COUGAR ENERGY LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012

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

COMPLIANCE WITH THE ASX CORPORATE GOVERNANCE COUNCILS PRINCIPLES AND RECOMMENDATIONS

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

Principles and Recommendations	Current Practice	Compliance Statement
<u>Principle 1: Lay solid foundations for management and oversight</u>		
1.1 Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	The Board of Directors of Cougar Energy Limited (Board) is responsible for the overall corporate governance of the Company. The Board has adopted a board charter that formalises its roles and responsibilities and defines the matters that are reserved for the Board and specific matters that are delegated to management. A copy of the Board Charter is available on the Company's website.	Complies.
1.2 Companies should disclose the process for evaluating the performance of senior executives.	Given the size of the Company, the Board has visibility of, and discusses, senior executive performance throughout the year. In addition, a formal review of senior executive performance is undertaken by the Managing Director having regard to the views of the Board.	Complies.
1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.	A summary of the board charter is available on the Company's website. The Board conducted performance review processes for senior executives in the manner set out in Principle 1.2.	Complies.
<u>Principle 2: Structure the Board to add value</u>		
2.1 A majority of the board should be independent directors.	The majority of the Board's Directors are not independent.	Ms Sarah-Jane Christensen, is not considered an independent director due to her role as company secretary prior to 21 November 2011.

COUGAR ENERGY LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012

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

Principles and Recommendations	Current Practice	Compliance Statement
<u>Principle 2: Structure the Board to add value (continued)</u>		
2.2 The chair should be an independent director.	The Company's chairman is an independent, non-executive director of the Board.	Complies.
2.3 The roles of chair and managing director should not be exercised by the same individual.	The offices of the Company's chairman and managing director are not held by the same individual.	Complies.
2.4 The board should establish a nomination committee.	The Board executes the functions of a nomination committee.	The Board has not established a nomination committee. Given its size, the Board has determined that it will execute the functions of a nomination committee and that a separate committee is unnecessary.
2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	The Board conducts a self assessment performance review on an annual basis	Complies.
2.6 Companies should provide the information indicated in the Guide to reporting on Principle 2.	<p>A director is considered independent when he or she substantially satisfies the test for independence as set out in the ASX Corporate Governance Principles. Mr Malcolm McAully is considered an independent director of the Company.</p> <p>Members of the Board are able to seek independent professional advice at the expense of the Company when required.</p> <p>Mr Malcolm McAully, non-executive Chairman, was appointed to the Board on 10 December 2002.</p> <p>Dr Len Walker, Managing Director, was appointed to the Board on 9 October 2006.</p> <p>Ms Sarah-Jane Christensen, a non-executive director, was appointed on 22 September 2010. Ms Christensen is not considered an independent director due to her role as company secretary which ceased on 21 November 2011.</p> <p>The full Board carries out the functions of a nomination committee.</p> <p>Full details of the Directors are disclosed in the Director's Report contained in this Annual Report.</p>	Except as outlined above in relation to Principles 2.1 and 2.4, the Company complied with these recommendations during the year ended 30 June 2012.

COUGAR ENERGY LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012

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

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

COUGAR ENERGY LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012

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

Principles and Recommendations	Current Practice	Compliance Statement
<u>Principle 4: Safeguard integrity in financial reporting</u>		
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 the chair of the board and have at least three members.	Mr McAully is an independent, non-executive director. The committee consists of two non-executive directors and Mr McAully has assumed the role of the chairman of the committee.	Does not comply as the Company's full Board consisted of only three members. Ms Christensen is not considered an independent director due to her role as company secretary which ceased on 21 November 2011. The Board considers it appropriate for the present that Mr McAully holds the position of Chair of the Board and audit and risk committee, given the size of the Board and Mr McAully's financial expertise.
4.3 The audit committee should have a formal charter.	The Board has adopted an audit and risk committee charter, a copy of which is available on the Company's website.	Complies.
4.4 Companies should provide the information indicated in the Guide to reporting on Principle 4.	The names and qualifications of the members of the audit and risk committee are disclosed in the Directors' Report contained within this Annual Report. The audit and risk committee held meetings during the current financial year and meets at least every six months. Both members of the committee attended all meetings.	Complies.
<u>Principle 5: Make timely and balanced disclosure</u>		
5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	The Company has adopted a continuous disclosure policy, to ensure that it complies with the continuous disclosure regime under the ASX Listing Rules and the Corporations Act 2001.	Complies.

COUGAR ENERGY LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012

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

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

COUGAR ENERGY LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012

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

Principles and Recommendations	Current Practice	Compliance Statement
<u>Principle 7: Recognise and Manage Risk (Cont'd)</u>		
7.4 Companies should provide the information indicated in the Guide to reporting on Principle 7.	The Board has adopted a risk management policy, a copy of which is available on the Company's website.	Complies.
<u>Principle 8: Remunerate fairly and responsibly</u>		
8.1 The board should establish a remuneration committee.	The Board has not established a remuneration committee and oversees all matters relating to remuneration.	Does not comply. The Board has not established a remuneration committee. Given its size, the Board has determined that it will execute the functions of a remuneration committee and that a separate committee is unnecessary.
8.2 The remuneration committee should be structured so that is consists of a majority of independent directors, is chaired by an independent chair and has at least three members.	The Board has not established a remuneration committee and oversees all matters relating to remuneration.	Does not comply for the reasons stated above in relation to Principle 8.1.
8.3 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	The Board oversees all matters relating to remuneration and distinguishes the structure required by principle 8.3.	Complies.
8.4 Companies should provide the information indicated in the Guide to reporting on Principle 8.	The guidelines for Principle 8 state that non-executive directors should not receive options or bonus payments. Mr McAully and previous Directors (but not Ms Christensen) were granted options over unissued ordinary shares under the Company's Employees, Officers and Consultants 2007 Option Plan. Both the Plan and the options granted to them were approved by shareholders at the Company's annual general meeting held on 23 November 2007. The plan was approved again in 2010. Other than superannuation contributions, the Company's non-executive directors do not receive any other type of retirement benefits.	Complies as no options under issue.

COUGAR ENERGY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Notes	30 June 2012 \$	30 June 2011 \$
ASSETS			
Current Assets			
Cash and cash equivalents	10	2,474,460	5,043,046
Trade and other receivables	11	829,283	146,366
Other financial assets	12	1,237,741	1,229,539
Total Current Assets		4,541,484	6,418,951
Non-Current Assets			
Exploration and evaluation assets	13	913,619	966,052
Investments in joint ventures	6	-	-
Property, plant and equipment	14	380,717	1,071,020
Intangible assets	15	514,378	595,453
Total Non-Current Assets		1,808,714	2,632,525
TOTAL ASSETS		6,350,198	9,051,476
LIABILITIES			
Current Liabilities			
Trade and other payables	17	552,971	555,713
Borrowings	18	233,410	-
Provisions	19(a)	1,331,762	1,323,043
Total Current Liabilities		2,118,143	1,878,756
Non-Current Liabilities			
Borrowings	18	24,080	28,188
Provisions	19(b)	5,269	8,313
Total Non-Current Liabilities		29,349	36,501
TOTAL LIABILITIES		2,147,492	1,915,257
NET ASSETS		4,202,706	7,136,219
EQUITY			
Contributed equity	20	71,771,316	71,155,209
Reserves		(24,324)	225,839
Accumulated losses		(67,563,955)	(64,278,312)
Total Equity Attributable to Equity Holders of the Parent Entity		4,183,037	7,102,736
Add minority interests in the net assets of controlled entities		19,669	33,483
TOTAL EQUITY		4,202,706	7,136,219

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

COUGAR ENERGY LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	Notes	Year Ended 30 June 2012 \$	Year Ended 30 June 2011 \$
REVENUE	5	293,682	273,020
EXPENSES			
Communication costs		184,330	208,397
Depreciation and amortisation		231,752	389,772
Employee benefits expense		1,505,427	1,628,173
Finance costs		181	987
Insurance expenses		139,283	175,259
Impairment expenses	13	793,981	32,238,769
Professional fees		1,163,670	1,032,157
Securities quotation fees		78,261	144,061
Tenancy & Other costs		265,045	310,234
Travel costs		171,747	130,961
Total Expenses		4,533,677	36,258,770
LOSS BEFORE INCOME TAX		(4,239,995)	(35,985,750)
Income Tax Benefit	8	682,611	707,174
TOTAL LOSS AFTER INCOME TAX FOR THE YEAR		(3,557,384)	(35,278,576)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX			
Movement in exchange in the translation of foreign operations		7,764	(12,201)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		7,764	(12,201)
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR		(3,549,620)	(35,290,777)
Profit / (Loss) for the year is attributable to:			
Non-Controlling interests		(13,911)	(48,788)
Owners of Cougar Energy Limited		(3,543,473)	(35,229,788)
		(3,557,384)	(35,278,576)
Total comprehensive income for the year is attributable to:			
Non-Controlling interests		(13,814)	(55,157)
Owners of Cougar Energy Limited		(3,535,806)	(35,235,620)
		(3,549,620)	(35,290,777)
		Cents	Cents
Basic earnings per share	24	(0.31)	(3.47)
Diluted earnings per share	24	(0.31)	(3.47)

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

COUGAR ENERGY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

Consolidated	Contributed Equity \$	Share Based Payments Reserve \$	Foreign Currency Translations Reserve ("FCTR") \$	Accumulated Losses \$	Equity Attributable to Equity Holders of the Parent \$	Non- Controlling Interests in Group Entities \$	Total Equity \$
Balance at 01-07-2011	71,155,209	257,830	(31,991)	(64,278,312)	7,102,736	33,483	7,136,219
Comprehensive Income Transactions							
Loss after tax for the period	-	-	-	(3,543,473)	(3,543,473)	(13,911)	(3,557,384)
Other comprehensive income							
Movement in the FCTR	-	-	7,667	-	7,667	97	7,764
Total Comprehensive Income	-	-	7,667	(3,543,473)	(3,535,806)	(13,814)	(3,549,620)
Transactions with Owners in their Capacity as Owners							
(a) Contributions by Owners							
Convertible Note -Equity	141,590	-	-	-	141,590	-	141,590
New ordinary share issues	450,000	-	-	-	450,000	-	450,000
Unissued Equity	100,000	-	-	-	100,000	-	100,000
Ordinary share issue costs	(75,483)	-	-	-	(75,483)	-	(75,483)
Transfer of Reserves							
Management Options	-	(257,830)	-	257,830	-	-	-
(b) Distributions to Owners							
Dividends paid	-	-	-	-	-	-	-
(c) Changes in Ownership Interests in Group Entities							
Accumulated losses adjustment due to ownership interest change	-	-	-	-	-	-	-
Non-controlling interest in group entity share issues	-	-	-	-	-	-	-
Total Transactions with Owners	616,107	(257,830)	-	257,830	616,107	-	616,107
Balance at 30-06-2012	71,771,316	-	(24,324)	(67,563,955)	4,183,037	19,669	4,202,706

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

COUGAR ENERGY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

Consolidated	Contributed Equity \$	Share Based Payments Reserve \$	Foreign Currency Translations Reserve ("FCTR") \$	Accumulated Losses \$	Equity Attributable to Equity Holders of the Parent \$	Non- Controlling Interests in Group Entities \$	Total Equity \$
Balance at 01-07-2010	63,976,212	833,832	(26,159)	(29,609,785)	35,174,100	88,639	35,262,739
<u>Comprehensive Income Transactions</u>							
Loss after tax for the period	-	-	-	(35,229,788)	(35,229,788)	(48,788)	(35,278,576)
Other comprehensive income							
Movement in the FCTR	-	-	(5,832)	-	(5,832)	(6,369)	(12,201)
Total Comprehensive Income	-	-	(5,832)	(35,229,788)	(35,235,620)	(55,157)	(35,290,777)
<u>Transactions with Owners in their Capacity as Owners</u>							
(a) Contributions by Owners							
New ordinary share issues	7,748,405	-	-	-	7,748,405	-	7,748,405
Unissued Equity	(14,400)	-	-	-	(14,400)	-	(14,400)
Ordinary share issue costs	(555,008)	-	-	-	(555,008)	-	(555,008)
Fair value of shares issued for no consideration	-	-	-	-	-	-	-
Share-based payments	-	(14,742)	-	-	(14,742)	-	(14,742)
Transfer of Reserves							
Management Options	-	(561,260)	-	561,260	-	-	-
(b) Distributions to Owners							
Dividends paid	-	-	-	-	-	-	-
(c) Changes in Ownership Interests in Group Entities							
Accumulated losses adjustment due to ownership interest change	-	-	-	-	-	-	-
Non-controlling interest in group entity share issues	-	-	-	-	-	-	-
Total Transactions with Owners	7,178,997	(576,002)	-	561,260	7,164,256	-	7,164,257
Balance at 30-06-2011	71,155,209	257,830	(31,991)	(64,278,312)	7,102,736	33,483	7,136,219

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

COUGAR ENERGY LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	Notes	Year Ended 30 June 2012 \$	Year Ended 30 June 2011 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from rentals		81,263	39,349
Payments to suppliers and employees		(3,494,745)	(3,774,390)
Interest received		208,530	233,538
Income tax refund		-	706,594
Net cash (outflow) from operating activities	22	(3,204,952)	(2,794,909)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds/(Payments) for security deposits on long-term tenancies		(8,202)	29,076
Payments for property, plant and equipment		(8,774)	(60,715)
Payments for exploration and evaluation assets		(658,835)	(3,468,619)
Proceeds for financial assets		-	120,460
Proceeds of sales from property, plant and equipment		460,940	180,624
Net cash (outflow) from investing activities		(214,871)	(3,199,174)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from ordinary shares issued by the parent entity		450,000	7,734,005
Proceeds from long term borrowings – convertible note		375,000	-
Proceeds from unissued ordinary shares		100,000	-
Payments for share issue transaction costs		(75,483)	(555,008)
Net cash inflow from financing activities		849,517	7,178,997
Net increase/(decrease) in cash and cash equivalents		(2,570,306)	1,184,914
Cash and cash equivalents at the beginning of the financial year		5,043,046	3,862,432
Effects of exchange rate changes on cash and cash equivalents		1,720	(4,300)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10	2,474,460	5,043,046

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

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1: CORPORATE INFORMATION

The financial report of Cougar Energy Limited (the 'Company') for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the Directors as per the date of signature on the Directors declaration. Cougar Energy Limited is a company limited by shares incorporated in Australia whose shares are publically traded on the Australian Securities Exchange ('ASX') with the ASX trading code of 'CXY'.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

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

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

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a high degree of judgement and complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed further in Note 2(b).

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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

Adoption of New, revised or amending Accounting Standards and Interpretations

The following new standards and amendments to standards have been issued or amended and are applicable to the annual financial statements of the Company but are not yet effective. The following have *not* been early adopted in preparation of the financial statements at the reporting date.

Reference	Title	Summary	Application Date
AASB 9	Financial Instruments	Addresses classification, measurement and de-recognition of financial assets and liabilities.	1 January 2015
AASB 10	Consolidated Financial Statements	Replaces AASB 127 and three elements of control in determining consolidation practice.	1 January 2013
AASB 11	Joint Arrangements	Replaces AASB 131 with now only two types of joint arrangements.	1 January 2013
AASB 12	Disclosure of Interests in Other Entities	Replaces AASB 127 and 128 disclosures for entities.	1 January 2013
AASB 13	Fair Value Measurement	Defines fair value, how to measure and what to disclose.	1 January 2013
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] – Effective 1 January 2013	Changes made to other standards as a result of amendments to AASB 9.	1 January 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	Amendments to AASB 124 removing key management personnel disclosures.	1 July 2013
AASB 2012-2	Amendments to Australian Accounting Standards Disclosures- Offsetting Financial Assets and Financial Liabilities [AASB 7 & AASB 132]	Amendments to AASB 7 and AASB 132 to enable users of the entity's financial statements to evaluate the effect or potential effect of netting arrangements.	1 January 2013
AASB 2012-3	Amendments to Australian Accounting Standards Disclosures- Offsetting Financial Assets and Financial Liabilities [AASB 7 & AASB 132]	Provides application guidance to AASB 132 to address inconsistencies in applying offsetting criteria.	1 January 2014
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle [AASB 1, AASB 101, AASB 116, AASB 132 & AASB 134 and Interpretation 2]	Various changes to presentation, recognition or measurement purposes including terminology changes.	1 January 2013

These standards are not expected to have material impact on the financial report at the time of initial adoption.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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

Going Concern

The consolidated entity has incurred a net loss attributable to the owners of Cougar Energy Limited of \$3,543,473 (30 June 2011: loss of \$35,229,788 inclusive of an impairment charge of \$32,238,769) and had cash outflows from operating activities of \$3,204,952 (30 June 2011: outflows of \$2,794,909).

During September and October 2011 the Company launched two separate legal actions in the Queensland Planning and Environment Court and the Queensland Supreme Court seeking to overturn the decision to close down the Kingaroy site as well as damages for the loss caused by the shutdown. The timings for hearings and outcomes are uncertain.

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

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

- At 30 June 2012, the consolidated entity had cash and cash equivalents of \$2,474,460.
- The Company has prepared cash flow budgets which include cash outflows for project expenditure, which can be deferred wholly or in part if insufficient capital is raised to fund that activity.
- The Company entered into a security purchase agreement with ASOF on 24 February 2012 (ASOF Agreement). The ASOF Agreement makes provision for the Company to access funding for a period of up to twenty-four (24) months from the date of entering the ASOF Agreement through the following instruments:
 - (a) a convertible security (Convertible Security) in the amount of \$375,000; and
 - (b) share subscription tranches by ASOF of \$100,000 per month, which subject to mutual agreement in respect of any particular month, can be increased to \$400,000 (up to an aggregate of \$9,325,000).A summary of the key features of the ASOF Agreement can be found in the Directors' Report under the *Significant Changes in the State of Affairs* section.
- The Company has previously announced that it is intending to sell its coal tenements – Mackenzie (EPC 1445) and Wandoan (EPC 118 MDLA 420).
- The Board is of the opinion that, subject to satisfactory market conditions, the consolidated entity will be able to access equity capital markets for working capital.

The consolidated entity's ability to continue to adopt the going concern assumption will depend upon successful raisings in the future for its ongoing funding. In the event of capital raisings being unsuccessful, there exists a material uncertainty which may cast significant doubt on the consolidated entity's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the ordinary course of business.

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

This financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessarily incurred should the consolidated entity not continue as a going concern.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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

(b) Critical Accounting Estimates and Judgments

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

(i) Share-Based Payment Transactions

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

(ii) Recovery of Deferred Tax Assets

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

(iii) Impairment of Exploration and Evaluation Assets

The previously responsible Queensland Government Department of Environment and Resource Management (DERM) suspended operations at the Kingaroy pilot plant site in July 2010 by operation of an Environmental Protection Order (EPO). Due to the EPO imposed on the Kingaroy site and the serving of a Notice of Proposed Action by DERM on the Company on 28 January 2011, the Company took the decision to impair (write down) the value of the Kingaroy Assets in the 2011 financial year.

DERM has also issued to the Company an amended Environmental Authority dated 7 July 2011 and effective 19 July 2011 which does not allow any operations on the Kingaroy site. The Company is currently contesting the issue of the amended Environmental Authority.

In light of the situation at the Company's Kingaroy Queensland site and because of uncertainties with the Queensland Government's UCG Policy, the Company also has partially impaired (written down) the value of its Wandoan exploration asset, representing only the portion of UCG related exploration expenditure that has been capitalised but not generic expenditure relating to exploration costs to proving and testing of overall coal resources. The assessment was based on the present situation in relation to the UCG industry in Queensland and the Company being limited in its ability to carry on UCG operations and activities.

The Company continues to classify expenditures in relation to these sites as impairment expenses. The Company will also consider write up of asset values if alternative uses are found for any appropriate assets.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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

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

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

The Company has in previous reporting periods provided for in the financial statements and classified as a long term liability provision its estimate of the rehabilitation of the surface at Kingaroy as part of the licence conditions at Kingaroy. The Company has assumed, based on current knowledge that rehabilitation works at surface level at Kingaroy would commence no earlier than 2014.

At the date of the previous (2011) Annual Report the Company had received notice from DERM that it was to only decommission and rehabilitate the underground cavity at Kingaroy. This does not require any rehabilitation of the site above the surface. The Company is presently still challenging this notice received from DERM (as stipulated in an amended Environmental Authority for the Kingaroy site). The outcome of this challenge is not known at this time and remains uncertain.

The Company has submitted a procedure for the decommissioning and rehabilitation of the underground cavity to DERM for approval. The Company has made a provision for the costs of these works based on the procedure submitted to DERM. The amended Environmental Authority also requires a groundwater monitoring program to be developed and implemented for the site, which the Company has implemented. The Company increased the provision in 2011 taking into account the possible costs of rehabilitating the underground cavity (not previously included) as well as the increased cost for the surface works. It took advice and estimates from third parties but not DERM when calculating this estimate.

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

(v) Intangible Assets

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

(vi) Useful lives of assets

The Company has made estimates of the useful lives of the plant and equipment and other assets based on assumptions of ongoing projects or transferability to other projects. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated, or when technically obsolete or non-strategic assets are abandoned at which time they will be written down to recoverable value.

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Cougar Energy Limited ("Company" or "Parent Entity") as at 30 June 2012 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are variously referred to in these financial statements as the 'Group' or the 'Consolidated Entity'. Subsidiaries are all those entities (including special purpose entities) over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether control exists.

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

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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

(c) Principles of Consolidation (Cont'd)

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

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

(d) Business Combinations

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

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

(e) Impairment of Assets

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

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

(f) Property, Plant and Equipment

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

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

(i) Depreciation

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

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

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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

(g) Financial Instruments

(i) Recognition and Initial Measurement

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

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

(ii) De-Recognition

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

Classification and Subsequent Measurement

Financial Assets at Fair Value through Profit or Loss

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

Loans and receivables

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

Financial Liabilities

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

(iii) Fair value

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

(iv) Impairment

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

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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

(h) Foreign Currency Translation

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

(i) Trade and Other Receivables

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

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

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

(j) Accounts Payable and Accruals

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

(k) Revenue Recognition

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

(l) Comparative Figures

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

(m) Income Tax

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

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

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

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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

(n) Goods and Services Tax

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

(o) Issued Capital

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

(p) Share-Based Payment Transactions

Equity-Settled Transactions

The Group provides benefits in the form of share-based payments to Directors and senior executives. These personnel render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options over unissued ordinary shares was determined using a Black-Scholes options pricing model.

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

- (i) the extent to which the vesting date has expired, and
- (ii) the Group's best estimate of the number of equity instruments that will ultimately vest.

No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

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

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the calculation of earnings per share.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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

(q) Exploration and Evaluation Assets

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

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

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

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

(r) Intangible Assets

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

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

(s) Rehabilitation and Restoration Costs

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

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

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

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

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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

(t) Leases

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

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

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

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

(v) Cash and Cash Equivalents

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

(w) Employee Benefits

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

(i) Long Service Leave

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

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3: CONTROLLED ENTITIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2. Cougar Energy Limited's direct and indirect ownership interests in each its subsidiaries is set out below. Whilst Cougar Energy Limited only has a 47.80% (2011: 47.80%) interest in Cougar Energy (UK) Limited, it still retains effective control of that entity and therefore consolidates by virtue of the fact that the Company has received qualified undertakings from directors and shareholders common to both companies that they will vote on any resolutions put to members of Cougar Energy (UK) Limited in the same way that Cougar Energy Limited votes. These undertakings are qualified to the extent that the relevant parties are only prepared to vote the same way as Cougar Energy Limited up until such time as Cougar Energy (UK) Limited has arranged its own external financing, which could possibly include a separate capital raising and stock exchange listing. At the date of this report, Cougar Energy (UK) Limited has not completed any such financing arrangements and accordingly, Cougar Energy Limited remains in control of Cougar Energy (UK) Limited. As a result, Cougar Energy (UK) Limited has been consolidated with Cougar Energy Limited in these financial statements for both financial years presented.

Name of Controlled Entity	Date of Incorporation	Country of Incorporation	Class of Equity held	Parent Entity's Equity Holdings (*)	
				in Controlled Entities as at:	
				30 June 2012	30 June 2011
				%	%
Cougar Energy UCG Pty Ltd	27-03-2003	Australia	Ord shares	100.00%	100.00%
Cougar Energy (UK) Ltd	01-06-2006	United Kingdom	Ord shares	47.80%	47.80%
Cougar Energy Pakistan (Private) Ltd (**)	18-03-2008	Pakistan	Ord shares	47.80%	47.80%
Cougar Energy Mongolia LLC	03-08-2011	Mongolia	Ord shares	100.00%	-
Cougar Energy Asia Holdings Ltd	09-02-2012	Australia	Ord shares	100.00%	-
Cougar Energy Asia Ltd	29-02-2012	Hong Kong	Ord shares	100.00%	-
Cougar Energy Hong Kong Ltd	07-03-2012	Hong Kong	Ord shares	100.00%	-
Cougar Energy Singapore Pte Ltd(***)		Singapore	Ord shares	-	-

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

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

(***) = Incorporated after Balance date on 16 July, 2012. Parent entity interest is 100% at that date.

Parent Entity

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

NOTE 4: FINANCIAL RISK MANAGEMENT

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

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 4: FINANCIAL RISK MANAGEMENT (CONT'D)

		Consolidated Group	
		2012	2011
	Notes	\$	\$
Financial Assets			
Cash and cash equivalents	10	2,474,460	5,043,046
Trade and other receivables	11	829,283	146,366
Other financial assets	12	1,237,741	1,229,539
Total Financial Assets		4,541,484	6,418,951
Financial Liabilities			
Borrowings	18	257,490	28,188
Trade and other payables	17	552,971	555,713
Total Financial Liabilities		810,461	583,901
Net Financial Assets		3,731,023	5,835,050

(a) Market Risk

(i) Foreign Currency Risk

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

	Primary Currency Exposure	Consolidated Group	
		2012	2011
		\$	\$
Financial Assets			
Cash and cash equivalents	GBP	16,775	47,634
Cash and cash equivalents	USD	101,612	-
Trade and other receivables	GBP	1,775	10,434
Trade and other receivables	PKR	75	80
Other financial assets	GBP	1,969	1,969
Total Financial Assets		122,206	60,117
Financial Liabilities			
Current provisions		-	-
Total Financial Liabilities		-	-
Net Financial Assets exposed to Foreign Currency Risk		122,206	60,117

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 4: FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Market Risk (Cont'd)

	Primary Currency Exposure	Notes	Consolidated Group 2012 \$	2011 \$
<u>Sensitivity Analysis</u>				
<u>Effect on Loss after Income Tax</u>				
<u>Higher / (Lower)</u>				
15% increase in exchange rates	GBP		-	-
	PKR		-	-
15% decrease in exchange rates	GBP		-	-
	PKR		-	-
<u>Effect on Equity</u>				
<u>Higher / (Lower)</u>				
15% increase in exchange rates	GBP		3,078	9,005
	USD		15,238	-
	PKR		11	12
Total effect of an increase in rates			18,327	9,017
15% decrease in exchange rates	GBP		(3,078)	(9,005)
	USD		(15,238)	-
	PKR		(11)	(12)
Total effect of an decrease in rates			(18,327)	(9,017)

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

(ii) Interest Rate Risk

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

	Notes	Consolidated Group 2012 \$	2011 \$
<u>Financial Assets</u>			
Cash and cash equivalents	10	2,474,460	5,043,046
Other financial assets (term deposits)	12	1,237,741	1,215,000
Total Financial Assets		3,712,201	6,258,046
<u>Financial Liabilities</u>			
Borrowings	18	257,490	28,188
Total Financial Liabilities		257,490	28,188
Net Financial Assets Exposed to Cash Flow Interest Rate Risk		3,454,711	6,229,858

Sensitivity Analysis

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

1% increase in interest rates	34,547	62,299
1% decrease in interest rates	(34,547)	(62,299)

Effect on Equity – Higher/(Lower)

1% increase in interest rates	34,547	62,299
1% decrease in interest rates	(34,547)	(62,299)

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 4: FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Market Risk (Cont'd)

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

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

(iii) Other Price Risk

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

(b) Credit Risk

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

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

(c) Liquidity Risk

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

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have developed an appropriate framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and capital raising initiatives based on continuous monitoring of forecast and actual cash flows.

(i) Financing Arrangements

Apart from a corporate credit card facility, with a current usage limit of \$9,000 (2011: \$ 30,000), the balance of which is direct debited to a nominated bank account each month, the Group does not have any undrawn borrowing facilities at the end of each financial year. The credit card facility is secured by a letter of set-off over a term deposit for an amount that corresponds with the facility limit. The Company also has in place a share purchase agreement with The Australian Special Opportunity Fund LP, which is being accessed for working capital.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 4: FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity Risk (Cont'd)

(ii) Maturities of Financial Liabilities

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

		Consolidated Group	
		2012	2011
	Notes	\$	\$
Financial liabilities			
Trade and other payables	17	552,971	555,713
Borrowings	18	257,490	28,188
Total financial liabilities subject to liquidity risk		810,461	583,901

(d) Fair Value of Financial Instruments

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

		Consolidated Group	
		2012	2011
	Notes	\$	\$
NOTE 5: REVENUE			
Revenue from Continuing Operations			
Interest received		212,415	233,538
Rental Income		81,263	39,349
<u>Other Revenue</u>			
Unrealised gain on foreign currencies		4	133
Revenue		293,682	273,020

NOTE 6: INVESTMENTS IN NON CONTROLLED ENTITIES

The joint venture arrangement with Queensland Methane expired during the period.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated Group	
	2012	2011
Notes	\$	\$
NOTE 7: EXPENSES		
<u>(a) Loss before Income Tax from Continuing Operations includes the following specific expenses:</u>		
Depreciation of property, plant and equipment	231,752	155,928
Amortisation of intangible assets	-	207,474
<u>Employee Expenses</u>		
Contributions to accumulated superannuation funds	227,936	278,870
Share-based Payments	-	(14,742)
<u>Rental expense relating to operating leases</u>		
Minimum lease payments	187,494	217,725
<u>Assets written off or disposed</u>		
Property, plant and equipment	40,397	224,402
NOTE 8: INCOME TAX EXPENSE		
<u>(a) Income Tax Benefit (Expense)</u>		
Current income tax	682,611	707,174
Deferred income tax expense	-	-
Income Tax Benefit	682,611	707,174
Deferred income tax expense included in the total income tax expense is comprised of:		
(Decrease)/increase in deferred tax assets	-	-
(Decrease)/increase in deferred tax liabilities	-	-
Total Deferred Income Tax Expense	-	-

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

	Notes	Consolidated Group 2012 \$	2011 \$
NOTE 8: INCOME TAX EXPENSE (Cont'd)			
<u>(b) Numerical Reconciliation of Income Tax Expense to Prima Facie Tax Payable</u>			
Loss from continuing operations		(4,239,995)	(35,985,750)
Total loss before income tax for the year		<u>(4,239,995)</u>	<u>(35,985,750)</u>
Tax at the Australian tax rate of 30% (2011: 30%)		(1,271,999)	(10,795,725)
Add/(less) the tax effect of amounts which are not deductible/(assessable) in calculating taxable income:			
Amortisation of key employment contracts		(59,955)	63,209
Entertainment expenses		1,427	3,105
Share-based payments		-	(4,423)
Share issue costs recognised directly in equity		-	(97,189)
Other deductible expenses		(44,122)	-
Impairment of exploration assets		347,923	9,665,314
Deferred tax assets not brought to account		1,026,202	1,163,835
		<u>(524)</u>	<u>(1,874)</u>
Differences in overseas corporate tax rates		524	1,874
R&D tax offset received		(682,611)	(707,174)
Total income tax (benefit)/expense		<u>(682,611)</u>	<u>(707,174)</u>
<u>(c) Unused Tax Losses Not Recognised as a Deferred Tax Asset</u>			
Taxable value of unused tax losses for which no deferred tax asset has been recognised:			
Tax losses on capital account		516,863	450,174
Tax losses on revenue account		13,956,943	9,979,790
Total unrecognised tax losses carried forward		<u>14,473,806</u>	<u>10,429,964</u>
Potential tax benefit of losses @ 30% (2011: 30%)		<u>4,342,142</u>	<u>3,128,989</u>

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

		Consolidated Group	
		2012	2011
	Notes	\$	\$
NOTE 8: INCOME TAX EXPENSE (Cont'd)			
<u>(d) Unrecognised temporary differences in relation to investments in controlled entities</u>			
Taxable value of temporary differences relating to investments in controlled entities for which no deferred tax assets or liabilities have been recognised:			
Foreign currency translation reserve		(24,324)	(31,991)
Undistributed losses		(728,270)	(679,671)
Total unrecognised temporary differences (Deferred Tax assets)		(752,594)	(711,662)
Potential tax asset / (liability) relating to unrecognised temporary difference @ 30% (2011: 30%)		225,778	213,499

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

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

(e) Australian tax consolidation legislation

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

NOTE 9: PARENT ENTITY INFORMATION

As at and throughout the financial year ending 30 June 2012 the parent company of the Group was Cougar Energy Limited. The financial position and result of the parent entity are detailed below.

	2012	2011
	\$	\$
Information relating to Cougar Energy Ltd:		
Total current assets	4,520,549	6,346,264
Total assets	6,652,431	9,481,065
Total current liabilities	2,118,143	1,878,756
Total liabilities	2,123,412	1,887,070
Equity		
- Issued capital	71,771,316	71,155,208
- Translation reserves	7,578	-
- Management options reserve	-	257,830
- Retained losses	(67,249,875)	(63,806,470)
Total equity	4,529,019	7,606,568
Total comprehensive income	3,701,234	34,654,192

Parent Entity Contingencies and Commitments

The Parent Entity contingent liabilities are consistent with Note 29.

Expenditure Commitments

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

Parent Entity Guarantees in respect of Debt of its Subsidiaries

The Parent Entity has no guarantees in respect of its subsidiaries.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

		Consolidated Group 2012	2011
	Notes	\$	\$
NOTE 10: CASH AND CASH EQUIVALENTS			
Cash at bank and on hand		1,699,435	4,268,021
Term deposits securing bank guarantees given	(a)	775,025	775,025
Total cash and cash equivalents		2,474,460	5,043,046

(a) Term deposits securing Bank Guarantees

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

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

NOTE 11: TRADE AND OTHER RECEIVABLES

Other receivables	708,686	26,079
Interest receivable	3,885	-
Prepayments	83,038	62,465
Goods and Services Tax (GST) recoverable	33,674	57,822
Total trade and other receivables	829,283	146,366

Trade and other Receivables

These amounts generally arise from transactions outside the usual operating activities of the Group. The above amounts are not past due date and therefore no amounts have been impaired. Interest may be charged at commercial rates where the terms of repayment exceed six months. Security is not normally obtained.

NOTE 12: OTHER FINANCIAL ASSETS

Current Assets

Security/rental tenancy deposits		22,741	14,539
Term deposits securing bank guarantees given	10 (ii)	1,215,000	1,215,000
Total other financial assets		1,237,741	1,229,539

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated Group	
	2012	2011
	\$	\$
NOTE 13: EXPLORATION AND EVALUATION ASSETS		
(a) Kingaroy, Qld UCG Project		
Cost at the start of the financial year	-	29,207,398
Reclassification of assets to Property Plant & Equipment	-	(541,923)
Additional expenditure	644,808	3,448,847
Impairment charge for the period	(644,808)	(32,114,322)
Cost at the end of the financial year	-	-
(b) Wandoan, Qld UCG Project		
Cost at the start of the financial year	864,496	900,410
Additional expenditure	69,604	88,533
Impairment charge for the period	(40,537)	(124,447)
Cost at the end of the financial year	893,563	864,496
(c) Thar Desert Project, Pakistan		
Cost at the start of the financial year	98,192	99,590
Additional expenditure	8,804	5,952
Impairment charge for the period	(108,636)	-
Foreign currency translation adjustments	1,640	(7,350)
Cost at the end of the financial year	-	98,192
(d) Mackenzie, Qld		
Cost at the start of the financial year	3,364	-
Additional expenditure	16,692	3,364
Cost at the end of the financial year	20,056	3,364
Total exploration and evaluation assets	913,619	966,052

Under the Accounting Standard AASB 6 *Exploration for and Evaluation of Mineral Resources*, the company is required to assess for impairment if facts and circumstances indicate that impairment may exist. Due to the Environmental Protection Order imposed on the Kingaroy site in 2010 and the actions to be taken at the Kingaroy site by the then responsible Queensland Government Department of Environment and Resource Management (DERM), the Company had applied the provisions of this Standard in the 2011 financial year. The company continues to apply the same treatment in the 2012 financial year and the impairment charge for the period reflects this treatment.

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

The Company has instituted legal proceedings seeking orders to reverse the closedown of the Kingaroy site as well as damages. Should the Company be successful or alternative uses found for any assets, the Board will consider reversing the impairment charge.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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

(e) UCG Tenements	Licence	Projects	Grant	Equity Interest (%)	
Licence Holder	Number	Location	Date	2012	2011
Cougar Energy Limited	MDL 385	Kingaroy	24-09-2009	100%	100%
Cougar Energy UCG Pty Ltd (CEUCG)	EPC 1118	Wandoan	24-07-2008	100%	100%
Cougar Energy Limited	MDLA 420	Wandoan	Pending	99%	99%
Cougar Energy UCG Pty Ltd	MDLA 420	Wandoan	Pending	1%	1%
Cougar Energy Limited	EPC 1445	Mackenzie	29-06-2011	100%	100%

Legend:

EPC = Exploration Permit for Coal

MDL = Mineral Development Licence

MDLA = MDL Application

Kingaroy, Queensland, Australia

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

Wandoan, Queensland, Australia

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

Mackenzie, Queensland, Australia

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

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 14: PROPERTY, PLANT AND EQUIPMENT

	Office Equipment & Furniture \$	Plant & Equipment \$	Land & Buildings \$	Total Depreciable Assets \$
2012 FINANCIAL YEAR				
Cost				
Cost at the start of the year	320,144	585,852	459,088	1,365,084
Additions	8,774	-	-	8,774
Disposals	-	(30,000)	(459,088)	(489,088)
Cost at the end of the year	328,918	555,852	-	884,770
Accumulated Depreciation				
Depreciation at the start of the year	155,659	116,943	21,462	294,064
Nett Charge for the year	77,263	154,489	-	231,752
Disposals	-	-	(21,462)	(21,462)
Foreign currency translation adjustments	(439)	138	-	(301)
Depreciation at the end of the year	232,483	271,570	-	504,053
Net book value at the end of the year	96,435	284,282	-	380,717
2011 FINANCIAL YEAR				
Cost				
Cost at the start of the year	310,274	196,224	500,864	1,007,362
Additions	25,601	13,829	-	39,430
Disposals	(15,731)	(166,124)	-	(181,855)
Assets written off	-	-	(41,776)	(41,776)
Reclassification of assets from exploration and evaluation assets	-	541,923	-	541,923
Cost at the end of the year	320,144	585,852	459,088	1,365,084
Accumulated Depreciation				
Depreciation at the start of the year	75,349	49,234	12,289	136,872
Disposals	681	-	-	681
Nett Charge for the year	79,629	67,126	9,173	155,928
Foreign currency translation adjustments	-	583	-	583
Depreciation at the end of the year	155,659	116,943	21,462	294,064
Net book value at the end of the year	164,485	468,909	437,626	1,071,020

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated Group	
	2012	2011
	\$	\$
NOTE 15: INTANGIBLE ASSETS		
(a) UCG Technology General Licence		
Cost at the start of the year	750,000	750,000
Additions	-	-
Cost at the end of the year	750,000	750,000
Accumulated Amortisation		
Amortisation at the start of the year	154,547	73,510
Charge for the year	81,075	81,037
Amortisation at the end of the year	235,622	154,547
Net book value at the end of the year	514,378	595,453
Total net book value of all intangible assets	514,378	595,453

UCG technology general licence fees represent the fees paid to Ergo Exergy Technologies, Inc (Ergo) for Cougar Energy Limited to use Ergo's UCG technology and know-how in Australia and other countries, following the signing of a General Licence Agreement on 3 November 2008 and which was further extended in June 2012. All general licence fees incurred are amortised over the ten-year period commencing on 3 November 2008.

NOTE 16: RELATED PARTY DISCLOSURE

a) Loans to Controlled Entities

Balance at the start of the financial year	273,993	260,651
- Additions for the year	-	13,342
- Impairment for the year	(146,088)	-
Total loans to controlled entities	127,905	273,993

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

b) Investments in Controlled Entities

Unlisted shares in controlled entities	(i)	328,310	6,052,761
Less provision for impairment	(ii)	(328,310)	(5,724,451)
		-	328,310

(i) Movement in Investment in controlled entities

Balance the start of the financial year	6,052,761	6,052,761
Cougar Energy UK rights Issue	-	-
	6,052,761	6,052,761

(ii) Movement in the Impairment Allowance

Balance at the start of the financial year	(5,724,451)	(3,547,898)
Allowance for the year	(328,310)	(2,176,553)
Balance at the end of the financial year	(6,052,761)	(5,724,451)

c) Other Transactions and Balances with Key Management Personnel

A Director, Ms Sarah-Jane Christensen, is a Director of Sarjan Consulting Pty Limited through which Ms Christensen provided company secretarial services to the Company. The agreement provided for a daily rate on commercial terms agreed prior to the appointment of Ms Christensen to the Board. An entity associated with the Chairman, Mr Malcolm McAully provided management consulting services to the Company terms of which were agreed by the Board. These amounts have been included as part of the Remuneration Report.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated Group	
	2012	2011
Notes	\$	\$
<u>NOTE 17: TRADE AND OTHER PAYABLES</u>		
Trade creditors	417,050	471,988
Other creditors	21,343	8,214
Accrued expenses	77,846	29,000
Payroll-related creditors	36,732	46,511
Total Trade and Other Payables	552,971	555,713
<u>NOTE 18: BORROWINGS</u>		
Convertible Note	233,410	-
Borrowings classed as Current Liabilities	233,410	-
During the year the company issued a Convertible Security totalling \$375,000 to The Australian Special Opportunities Fund LP (ASOF). The terms are specified in detail in Note 20. In summary ASOF can convert at any time within 24 months based on a pricing formula. At the end of 24 months this security has to be converted into shares.		
Loan from non controlled entities	24,080	28,188
Borrowings classed as Non-Current Liabilities	24,080	28,188
Total Borrowings	257,490	28,188
<u>NOTE 19: PROVISIONS</u>		
<u>(a) Current Liabilities</u>		
Provision for employee benefits (annual leave)	105,251	96,532
Provision for restoration Kingaroy Pilot Plant (*)	1,226,511	1,226,511
Total Current Provisions	1,331,762	1,323,043
<u>(b) Non-Current Liabilities</u>		
Provision for employee benefits (long service leave)	5,269	8,313
Total Non-Current Provisions	5,269	8,313
<u>(*)Provision for restoration Kingaroy Pilot Plant</u>		
Provision at the start of the year	1,226,511	544,824
Charge for the year	-	681,687
Total Kingaroy Pilot Plant Provisions	1,226,511	1,226,511

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

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated Group				
	Issue Price \$	Securities Issued 2012 Number	Gross Proceeds 2012 \$	Securities Issued 2011 Number	Gross Proceeds 2011 \$

NOTE 20: EQUITY- CONTRIBUTED					
<u>(a) Movements in Fully Paid Ordinary Shares</u>					
Contributed equity at the start of the financial year		1,131,931,902	71,155,209	919,127,810	65,376,172
<u>Proceeds received from:</u>					
New shares issued	0.0720	-	-	17,775,408	1,279,830
New shares issued	0.0340	-	-	2,058,824	70,000
New shares issued	0.0320	-	-	3,125,500	100,016
New shares issued	0.0347	-	-	4,322,767	150,000
New shares issued	0.0383	-	-	30,000,000	1,148,560
New shares issued	0.0303	-	-	3,300,330	100,000
New shares issued	0.0350	-	-	28,571,429	1,000,000
New shares issued	0.0350	-	-	3,289,474	100,000
New shares issued	0.0300	-	-	3,333,333	100,000
New shares issued	0.0300	-	-	27,027,027	1,000,000
New shares issued	0.0300	-	-	90,000,000	2,700,000
New shares issued – collateral shares	0.0000	20,000,000	-	-	-
New shares issued	0.0148	8,208,097	-	-	-
New shares issued	0.0120	10,416,667	125,000	-	-
New shares issued	0.0120	10,416,667	125,000	-	-
New shares issued	0.0080	12,500,000	100,000	-	-
New shares issued	0.0080	14,285,714	100,000	-	-
Less share issue transaction costs		-	(75,483)	-	(1,969,369)
Contributed equity from ordinary shares		1,207,759,047	71,529,726	1,131,931,902	71,155,209

<u>(b) Other equity securities</u>					
Unissued equity		-	100,000	-	-
Value of conversion rights – convertible notes		-	141,590	-	-
Total Contributed equity		1,207,759,047	71,771,316	1,131,931,902	71,155,209

Fully and Partly Paid Ordinary Shares

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

Convertible Security

The agreement with the Australian Special Opportunities Fund (ASOF Agreement) makes provision for the Company to access funding for a period of up to twenty-four (24) months from the date of entering the ASOF Agreement. This includes an unsecured loan which with shareholder approval given on 3 April 2012 converted to a Convertible note or security (Convertible Security) in the amount of \$375,000.

Key terms of the Convertible Security are as follows:

- Zero coupon (interest free)
- ASOF can convert the Convertible Security at any time in minimum tranches of \$50,000 up to a total of \$375,000 within twenty-four (24) months after the date of signing of the ASOF Agreement.
- The price of the shares upon conversion is based on a prescribed formula, being the lesser of:
 - (i) 130% of the average of the daily volume weighted average prices during the twenty (20) consecutive trading days on the ASX of the Company's shares prior to the signing of the ASOF Agreement (calculated at \$0.019204 (1.9204 cents)), and

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 20: EQUITY- CONTRIBUTED (CONT'D)

Convertible Security (con't)

- (ii) 92.5% of the average of three (3) consecutive daily volume weighted average prices per share of the Company as selected by ASOF during a specified period prior to the date of conversion (which cannot be presently calculated).
- If all or part of the Convertible Security is not converted prior to the termination of the ASOF Agreement, it is deemed that ASOF has given notice to the Company on the last day prior to termination to convert that part of the Convertible Security which remains unconverted.

As at 30 June 2012 no amount of the Convertible Security had been converted into shares.

Further under the ASOF Agreement, ASOF commits to making monthly purchases of equity ranging in value from \$100,000 up to \$400,000 (up to an aggregate of \$9,325,000) (each purchase a Tranche). The first two (2) Tranches were set at \$125,000 each. Each Tranche is to be repaid by the Company by way of issuing fully paid ordinary shares in tranches (Tranche Shares). The price (Purchase Price) at which the shares will be issued in each monthly tranche will be 92.5% of the average three consecutive daily volume weighted average prices (VWAPs) of the Company's shares during a specified period prior to the date of the issue of the shares. For two monthly tranches only, the Purchase Price may be equal to 130% of the average of the daily VWAPs for the twenty (20) trading days prior to the signing of the ASOF Agreement.

Funds will only be advanced by ASOF if the previous Tranche has been repaid by the Company and provided that the Company has met certain conditions, including obtaining any necessary approvals and that the Company has not breached certain representations and warranties set out in the ASOF Agreement.

The Company can elect not to issue shares in a particular month if the Purchase Price falls below the minimum Purchase Price of \$0.01 (1 cent) (Minimum Purchase Price) provided that the Company redeems the amount of the outstanding Tranche at 105% of par. ASOF has the election, in its sole discretion, to postpone for 60 days a monthly share subscription payment if the VWAP is \$0.008 (0.8 cents) or less for five consecutive trading days in the relevant period prior to the date of the issue of the shares for the previous share subscription payment.

In addition to the Minimum Purchase Price, the Company has further dilution protections such that ASOF will not hold at any time more than 19.99% of the Company's capital and that no one allocation of Tranche Shares may exceed a certain percentage of the Company's market capitalization.

As at 30 June 2012 ASOF had made purchases totalling \$450,000 of fully paid ordinary shares of the Company through monthly tranches. There was an amount of \$100,000 that remained unissued to ASOF which were issued in the new financial year.

Call Options Over Unissued Shares

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

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

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 20: EQUITY- CONTRIBUTED (CONT'D)

(c) Capital Management

Gearing Ratios

The Group's capital structure is monitored using gearing ratios, calculated as net debt divided by total capital.

Net debt is calculated as total borrowings (including "borrowings" and "trade and other payables" as shown on the statement of financial position, plus term deposits securing bank guarantees) less "cash at bank and on hand". Total capital is calculated as "total equity attributable to equity holders of the Parent Entity" as shown on the statement of financial position plus net debt.

The gearing ratios as at 30 June each year were as follows.

		2012	2011
		\$	\$
Borrowings – short term	18	233,410	-
Borrowings – long term	18	24,080	28,188
Trade and other payables	17	552,971	555,713
Total debt		810,461	583,901
Less cash and cash equivalents	10	(2,474,460)	(5,043,046)
Add back surplus cash		1,663,999	4,459,145
Net debt		-	-
Add total equity attributable to equity holders of the parent entity		4,183,037	7,102,736
Total capital		4,183,037	7,102,736
Gearing ratio (net debt / total capital) (%)		0%	0%

Objectives

The Group's capital management objective is to ensure that it continues as a going concern in order to provide returns for shareholders and benefits for other stakeholders, whilst maintaining an optimal capital structure aimed at reducing the cost of capital. There has been no change in the capital management strategy adopted in each of the financial years presented. The Group is not subject to any externally imposed capital requirements. Capital structures may be maintained or adjusted by adjusting the amount of dividends paid to shareholders, returning capital to shareholders, issuing new shares or selling assets to reduce debt.

		Consolidated Group	
		2012	2011
	Notes	\$	\$

NOTE 21: EQUITY – OPTIONS

Share-based payments reserves:

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

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

Consolidated Group			
Securities Issued 2012 Number	Fair Value 2012 \$	Securities Issued 2011 Number	Fair Value 2011 \$

NOTE 21: EQUITY - OPTIONS (Cont'd)

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

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

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

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

The non-market conditional vesting requirement referred to above is the achievement of the "financial close" on the First Financing as defined in the Memorandum of Understanding, which the Company signed with Direct Invest (Pte) Ltd on 9 June 2008. The financial close is yet to be achieved. Refer to note 29

(c) Movements in the Unlisted Vendor Options Reserve

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

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

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated Group	
	2012	2011
	\$	\$
<u>NOTE 22: RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES</u>		
Loss after income tax for the year attributable to equity holders of the Parent Entity	(3,543,473)	(35,229,788)
Add minority interest in the loss after income tax from controlled entities	(13,911)	(48,788)
Total loss after income tax for the year	(3,557,384)	(35,278,576)
<u>Net Exchange Rate Differences</u>		
Net foreign currency translation reserve effect on changes in operating assets and liabilities	-	-
<u>Non-cash expenditure</u>		
Amortisation and depreciation expense	238,441	407,193
Unrealised gain on foreign currencies	(5)	(133)
Share-based payments	-	(14,742)
Impairment of non-current assets	793,981	32,238,769
<u>Change in net operating assets and liabilities</u>		
Decrease/(Increase) in trade and other debtors	(682,920)	319,917
Increase/(Decrease) in trade and other payables	(2,742)	(1,059,705)
Increase/(Decrease) in provisions	5,675	592,368
Net Cash from operating activities	(3,204,952)	(2,794,909)

NOTE 23: SEGMENT INFORMATION

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

Management has determined the operating segment based upon reports reviewed by the Board and executive management that are used to make strategic decisions. Management and the Board consider the business only from a UCG operational perspective and therefore only reviews reports based upon its current UCG development operations as disclosed within these financial statements. Whilst the Company has invested limited capital into its overseas operations, both the Board and management consider these currently insignificant for separate segment reporting purposes. There are no sales or material non-current assets other than those listed in Australia.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated Group	
	2012	2011
	\$	\$

NOTE 24: LOSS PER SHARE

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

Basic and Diluted Loss Per Share

Total loss after income tax from continuing operations		(3,557,384)	(35,278,576)
Add back loss after income tax from continuing operations attributable to minority interests in controlled entities		13,911	48,788
Loss after income tax from continuing operations attributable to the ordinary equity holders of the Parent Entity	(i)	(3,543,473)	(35,229,788)
Add profit after income tax from disposal groups held for sale	(ii)	-	-
Net loss after income tax attributable to the ordinary equity holders of the Parent Entity	(iii)	(3,543,473)	(35,229,788)

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

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

Weighted average number of ordinary shares and dilutive potential ordinary shares used as the denominator in calculating diluted loss per share	1,147,428,114	1,016,265,168
---	----------------------	---------------

(c) Information Regarding the Classification of Dilutive Potential Ordinary Shares

Options over unissued ordinary shares and Contingent Ordinary Shares

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

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

NOTE 25: KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key Management Personnel Compensation

Short-term employee benefits	1,434,440	1,503,628
Post-employment benefits	166,713	189,798
Other long-term benefits	-	-
Termination benefits	-	107,935
Share-based payments	-	(14,742)
Total compensation	1,601,153	1,786,619

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

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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

(b) Equity Instrument Disclosures Relating To Key Management Personnel

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

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

(ii) Option Holdings

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

Name Of Personnel	Balance at the start of the year	Granted as Compensat- ion during the year	Exercised During the year	Lapsed/ Forfeited during the year	Balance at the end of Year	Vested And Exercisable
2012						
<u>Directors</u>						
Malcolm McAully	-	-	-	-	-	-
Len Walker	-	-	-	-	-	-
Sarah-Jane Christensen	-	-	-	-	-	-
<u>Other Personnel</u>						
Brad Glynne	5,000,000	-	-	(5,000,000)	-	-
Valeri Melik	2,400,000	-	-	(2,400,000)	-	-
Total number	7,400,000	-	-	(7,400,000)	-	-
2011						
<u>Directors</u>						
Michael Dalling	2,100,000	-	-	(2,100,000)	-	-
Malcolm McAully	2,100,000	-	-	(2,100,000)	-	-
Len Walker	-	-	-	-	-	-
Sarah-Jane Christensen	-	-	-	-	-	-
<u>Other Personnel</u>						
Andrew Brown	4,200,000	-	-	(4,200,000)	-	-
Brad Glynne	5,000,000	-	-	-	5,000,000	5,000,000
John Henderson	4,200,000	-	-	(4,200,000)	-	-
Garry Leblang	2,400,000	-	-	(2,400,000)	-	-
Valeri Melik	2,400,000	-	-	-	2,400,000	2,400,000
Rodney Watson	2,400,000	-	-	(2,400,000)	-	-
Total number	24,800,000	-	-	(17,400,000)	7,400,000	7,400,000

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

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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

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

(iii) Ordinary Share Holdings

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

Name of Personnel	Balance at the start of the year	Acquired during the Year	Options Exercised during the year	Received as Compensation during the year	Disposed during the Year	Other Changes during the year	Balance at the end of the year
2012							
Directors							
Malcolm McAully	620,865	-	-	-	-	-	620,865
Len Walker	108,836,948	-	-	-	-	-	108,836,948
Sarah-Jane Christensen	-	-	-	-	-	-	-
Key Personnel							
Rajeev Chandra	6,000	-	-	-	-	-	6,000
Kevin Garner	-	1,142,422	-	-	-	-	1,142,422
Valeri Melik	41,786	-	-	-	-	-	41,786
Total number	109,505,599	1,142,422	-	-	-	-	110,648,021
2011							
Directors							
Michael Dalling	1,118,698	-	-	-	-	(1,118,698)	N/A
Malcolm McAully	620,865	-	-	-	-	-	620,865
Len Walker	108,836,948	-	-	-	-	-	108,836,948
Key Personnel							
Rajeev Chandra	-	6,000	-	-	-	-	6,000
Valeri Melik	41,786	-	-	-	-	-	41,786
Total number	110,618,297	6,000	-	-	-	(1,118,698)	109,505,599

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

(c) Loans to Key Management Personnel

No loans were made to the Directors of Cougar Energy Limited, nor to any of the Company's other key management personnel during either of the 2012 or 2011 financial years.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 26: SHARE-BASED PAYMENT PLANS

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

(a) Employees', Officers' and Consultants Option Plan

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

(i) Number and Weighted Average Exercise Prices of Options

Grant Date	Expiry Date	Exercise Price	Balance at the start of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at the end of the year
2012							
28-04-2009	01-05-2012	\$0.10	800,000	-	-	(800,000)	-
28-04-2009	01-05-2012	\$0.15	800,000	-	-	(800,000)	-
28-04-2009	01-05-2012	\$0.20	800,000	-	-	(800,000)	-
04-05-2009	03-05-2012	\$0.10	1,600,000	-	-	(1,600,000)	-
04-05-2009	03-05-2012	\$0.15	1,700,000	-	-	(1,700,000)	-
04-05-2009	03-05-2012	\$0.20	1,700,000	-	-	(1,700,000)	-
Total Number			7,400,000	-	-	(7,400,000)	-
Weighted average exercise price			\$0.15	-	-	-	-
2011							
23-11-2007	30-11-2010	\$0.10	10,800,000	-	-	(10,800,000)	-
28-04-2009	01-05-2012	\$0.10	1,600,000	-	-	(800,000)	800,000
28-04-2009	01-05-2012	\$0.15	1,600,000	-	-	(800,000)	800,000
28-04-2009	01-05-2012	\$0.20	1,600,000	-	-	(800,000)	800,000
04-05-2009	03-05-2012	\$0.10	1,600,000	-	-	-	1,600,000
04-05-2009	03-05-2012	\$0.15	1,700,000	-	-	-	1,700,000
04-05-2009	03-05-2012	\$0.20	1,700,000	-	-	-	1,700,000
01-12-2009	30-11-2012	\$0.10	1,400,000	-	-	(1,400,000)	-
01-12-2009	30-11-2012	\$0.15	1,400,000	-	-	(1,400,000)	-
01-12-2009	30-11-2012	\$0.20	1,400,000	-	-	(1,400,000)	-
Total Number			24,800,000	-	-	(17,400,000)	7,400,000
Weighted average exercise price			\$0.13	-	-	-	\$0.15

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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

	2012	2011
(ii) Weighted average share price at the date of exercising options	-	-
(iii) Weighted average remaining contractual life of those options on issue at the end of each year	-	0.83 Years
(iv) Weighted average fair value of options granted during the year	N/A	N/A

(b) Project Financier Options

These expired on 30 June 2011.

(i) Number and Weighted Average Exercise Prices of Options

Grant Date	Expiry Date	Exercise Price	Balance at the start of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at the end of the year	Vested and Exercisable at the end of the year
2012								
N/A			-	-	-	-	-	-
Total Number			-	-	-	-	-	-
Weighted Average Exercise Price			-	-	-	-	-	-
2011								
01-12-2009	30-06-2011	\$0.25	10,000,000	-	-	(10,000,000)	-	-
Total number			10,000,000	-	-	(10,000,000)	-	-
Weighted average exercise price			\$0.25	-	-	-	\$0.25	-

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

	2012	2011
(ii) Weighted Average Share Price at the Date of Exercising Options	N/A	N/A
(iii) Weighted average remaining contractual life of those options on issue at the end of each year	N/A	N/A
(iv) Weighted average fair value of options granted during the year	N/A	N/A

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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

(c) Vendor Options

These options were approved in the 2006 extraordinary general meeting and expired in the 2010 financial year.

(i) Number and Weighted Average Exercise Prices of Options

Grant Date	Expiry Date	Exercise Price	Balance at the start of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at the end of the year	Vested and Exercisable at the end of the year
N/A			-	-	-	-	-	-
Total number			-	-	-	-	-	-
Weighted average exercise price			-	-	-	-	-	-

No options were forfeited during either financial year.

(ii) Weighted average share price at the date of exercising options

2012	2011
N/A	-

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

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

	Notes	Consolidated Group	
		2012 \$	2011 \$
Management options	26(a)		
- Pro-rata recognition of the fair value of:			
- Existing options		-	(14,742)
- New options granted during the year		-	-
Total share-based payment expense		-	(14,742)

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 27: AUDITOR'S REMUNERATION

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

	2012	2011
Audit and review of financial reports	52,250	51,240
Other non-audit services	-	-
Total auditor's remuneration	52,250	51,240

NOTE 28: COMMITMENTS

(a) Capital Expenditure Commitments

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

(i) Exploration and Evaluation Expenditure

Within one year	315,500	94,000
Later than one year, but not later than five years	471,700	726,200
Later than five years	-	-

(ii) Construction

Within one year	-	-
Later than one year, but not later than five years	-	-
Later than five years	-	-
Total capital commitments	787,200	820,200

(b) Lease Commitments as Lessee

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

Within one year	57,812	167,812
Later than one year, but not later than five years	21,312	79,124
Total non-cancellable operating lease commitments	79,124	246,936

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

(ii) Cancellable operating and finance leases

Insurance Premium Funding	47,341	45,061
Total cancellable operating lease commitments	47,341	45,061
Total commitments	913,665	1,112,197

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 29: CONTINGENT LIABILITIES

As at 30 June 2012, the Company including the Parent Entity had the following contingent liabilities:

(a) Amounts potentially payable Under the Complaint and Summons dated 30 June 2011

The Company has been served with a Complaint and Summons issued by an officer of the Queensland Government's Department of Environment and Resource Management (DERM) as it was then called. The Complaint alleges three counts of contravention of environmental authority pertaining to the Kingaroy site. Should the Company be found guilty of any count, the maximum fine the court can impose maybe up to \$832,500 per count. DERM may seek, although it has not done so to date, an order that the Company pay rehabilitation, compensation, investigation, court and legal costs to DERM. The outcome of the proceedings is unknown, nor if any, the amount of the fines or any other costs if any. The Company will contest each count.

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

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

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

The Company is contesting this amended Environmental Authority which specifically requires the rehabilitation of the underground cavity. The Company has made a provision for the costs of this work based on internal assumptions and third party advice it has received. The scope of works is still to be confirmed by DERM.

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

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

(c) Amounts potentially payable under the legal proceedings in the Queensland courts

The Company has initiated two legal actions in the courts of Queensland. The action in the Supreme Court seeks damages, interest and costs against several named Defendants. The action in the Planning and Environment Court is an appeal against the decision by the then responsible Queensland Government Department (DERM) to amend the Company's Environment Authority conditions to not allow the Company to operate at the Kingaroy site. The timing of when these cases will come on for hearing and decisions being handed down cannot be readily predicted. The outcomes of the cases are uncertain. If the Company were not successful in any of the actions, the Court(s) may make orders that the Company pay an amount or amounts to the Defendant(s) for its or their costs. The Company cannot predict what the amount or amounts could be.

COUGAR ENERGY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 30: EVENTS OCCURRING AFTER BALANCE DATE

The following table sets out in chronological order the material events that have occurred since 30 June 2012, involving the Parent Entity and/or its controlled entities. Where possible, the financial impact of each event has also been quantified.

Effective Date	Transaction Details and Financial Impact:
6 August 2012	<p>As announced to the Australian Securities Exchange (ASX) on 24 July 2012, Mr Rob Neill was appointed as Chief Executive Officer and Managing Director of the Company. He commenced his role on 6 August 2012. He also accepted an invitation to join the Board of Directors on that day.</p> <p>Dr Len Walker stepped down as Chief Executive Officer and Managing Director on the same day. He remains on the Board as Executive Director – Technology and Commercialisation.</p>
17 August 2012	The Company announced to the ASX that it had placed its Mackenzie (EPC 1445 Bowen Basin Queensland) and Wandoan (EPC 1118 MDLA 420 Surat Basin Queensland) coal tenements for divestment. These are shown as Exploration and Evaluation Assets in the financial statements.
17 August 2012	The Company under its funding arrangements with The Australian Special Opportunity Fund LP (ASOF) issued 20,000,000 shares to raise \$100,000. These shares were shown as unissued shares in the financial statements as at 30 June 2012.
27 August 2012	Based on notice given by The Australian Special Opportunity Fund LP (ASOF), the sum of \$250,000 of the Convertible Security (out of a total of \$375,000) between ASOF and the Company was converted to shares. The Company issued 30,000,000 new shares and ASOF capitalised 20,000,000 shares previously issued to it in a collateral account.

COUGAR ENERGY LIMITED
DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2012

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

- (a) the financial statements and the notes to those statements set out on pages 28 to 71, and the remuneration disclosures that are contained within the Remuneration report within the Directors' report, set out on pages 10 to 20, are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2012 and of its performance for the financial year ended on that date, and
- (b) the financial report also complies with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) as disclosed in note 2, and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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



Dr Len Walker
Director

27 August 2012
Melbourne



Tel: +61 3 9603 1700
Fax: +61 3 9602 3870
www.bdo.com.au

Level 14, 140 William St
Melbourne VIC 3000
GPO Box 5099 Melbourne VIC 3001
Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Cougar Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of Cougar Energy Limited, which comprises the consolidated statement of financial position as at 30 June 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those 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 company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company'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*. We confirm that the Independence Declaration required by the *Corporations Act 2001*, which has been given to the directors of Cougar Energy Limited, would be in the same terms if given to the directors as at the time of this Auditor's Report.

BDO East Coast Partnership ABN 83 236 985 726 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO East Coast Partnership and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.



Opinion

In our opinion:

- (a) the financial report of Cougar Energy Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001, and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2(a) "Going Concern" in the financial report, which indicates that the consolidated entity incurred a net loss attributable to owners of \$3,543,473 for the year ended 30 June 2012, and had net cash outflows from operating activities amounting to \$3,204,952. These conditions along with other matters set forth in Note 2(a) "Going Concern" give rise to a material uncertainty which may cast significant doubt about the ability of the consolidated entity to continue as a going concern, and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 19 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Cougar Energy Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership

James Mooney

Partner

Melbourne 27 August 2012

COUGAR ENERGY LIMITED

SHAREHOLDER INFORMATION

Additional information required by the Australian Stock Exchange (ASX) listing rules. Information is as at 15 August 2012.

(a) DISTRIBUTION OF EQUITY SECURITIES

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

Security Holding Range:	Listed Fully paid Ordinary Shares	Unlisted Management Options	Unlisted Project Financier Options
1 - 1,000	361	-	-
1,001 - 5,000	590	-	-
5,001 - 10,000	884	-	-
10,001 - 100,000	3,513	-	-
100,001 and over	1,705	-	-
Totals	7,053	-	-
Number of securities in a marketable parcel of \$500	71,429	-	-
Number of security holders with less than a marketable parcel	4,677	-	-

(b) EQUITY SECURITY HOLDERS

(i) Twenty largest quoted equity security holders.

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

Name of Equity Holder	Listed Fully Paid Ordinary Shares	
	Number Held	Percentage of Issued Capital(%)
Innisfree Pty Limited*	67,836,948	5.62
Leonard Keith Walker & Rosalie Joyce Walker Super Fund *	31,000,000	2.57
Limitless International Holdings Pty Limited	28,571,429	2.37
Somnus Pty Limited	25,000,000	2.07
HSBC Custody Nominees	20,924,170	1.73
Belrose Consulting Pty Limited	20,500,000	1.70
Mr Jason Worley	12,575,000	1.04
Mrs Belinda Louise Haan	11,970,000	0.99
Mr Alexander Jason Elks	10,000,000	0.83
Dr Leonard Keith Walker & Mr Marco Salvatore Carlei (Innisfree No 2)*	10,000,000	0.83
JP Morgan Nominees Australia Limited	7,829,603	0.65
Mr Craig Heath	7,531,500	0.62
Mr Mickle Vullo	6,500,000	0.54
Mr Aaron Orya	6,365,600	0.53
Netwealth Investments Limited	6,063,843	0.50
Todstead Superannuation Pty Limited	6,000,000	0.50
Mr Donald Lansbury Dillon + Ms Kathryn Mary Lambert	5,501,215	0.46
Mr Elliott John Bennett	5,390,000	0.45
Mr Donald Stuart Crombie	5,358,262	0.44
Mr Benjamin Phillips	5,073,000	0.42
Totals	299,990,570	24.86

Individual percentages vary due to rounding.

* Associated with Dr Len Walker

COUGAR ENERGY LIMITED
SHAREHOLDER INFORMATION

(b) EQUITY SECURITY HOLDERS (CONT'D)

(ii) Unquoted Equity Securities

A Convertible Security for the amount of \$375,000 remains outstanding. There has been no conversion of any amount of the security into the Company's shares.

(c) SUBSTANTIAL EQUITY HOLDERS

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

Name of Equity Holder	Listed Fully Paid Ordinary Shares		Unlisted Options *	
	Number Held	Percentage of Issued Capital	Number Held	Percentage of Issued Capital
Innisfree Pty Limited	67,836,948	5.62	-	-
Leonard Keith Walker & Rosalie Joyce Walker Super Fund	31,000,000	2.57	-	-
Dr Leonard Keith Walker & Mr Marco Salvatore Carlei (Innisfree No 2)	10,000,000	0.83	-	-
Totals	108,836,948	9.02	-	-

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

(d) VOTING RIGHTS

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

(i) Listed Fully Paid Ordinary Shares

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

(ii) Unlisted Fully Paid Options

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

THIS PAGE IS LEFT INTENTIONALLY BLANK

THIS PAGE IS LEFT INTENTIONALLY BLANK

THIS PAGE IS LEFT INTENTIONALLY BLANK

