



ASX Announcement – 31 December 2010

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Contract Drilling Business Update

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- **Extension of Uruguay Drilling program**
 - **Expansion of Uruguayan Drilling Fleet**
 - **Revision of terms for an underperforming Brazilian Contract**
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Cougar Metals NL (“**Cougar**” or the “**Company**”) is pleased to announce that its wholly owned Uruguayan subsidiary, Palinir S.A. trading as Cougar Drilling Services (“**CDS**”), has reached an agreement to extend the scope of works for its Uruguayan drilling contract, as a result of delays beyond the Company’s control.

Initially the contract was for the delivery of 15,000m of diamond core and 55,000m of Reverse Circulation (“**RC**”) drilling. This has now been amended to 30,000m diamond core and 50,000 m RC drilling, with the revised program expected to be completed by the end of April 2010.

CDS has also hired an additional two diamond drilling rigs to advance production. To assist with the purchase of consumables for these additional rigs, the client has agreed to advance CDS a further \$600,000 of working capital, which will be repaid in the form of discounted drilling rates over the balance of the contract.

A second RC rig, constructed in Perth this year, is also expected to arrive in Uruguay and be operational at the project by the end of January 2011. This rig will replace the RC rig that was on hire and recently returned, bringing the Uruguayan operational fleet to 6 rigs, with all rigs employed on a 24 hour, 7 day week basis.

Operations for this program are now performing well, with CDS having drilled 20,000m of RC and 10,000m of diamond core to date. The contract has been generating solid cash flow since October 2010, which has been utilised to repay debt, and fund the Company’s overheads in Australia and exploration costs in Brazil. Gross revenues for the Uruguayan contract are expected to increase from the current level, circa US\$1,000,000 per month, and peak in March and April at circa US\$1,800,000 per month. As such, and upon successful completion of the contract, Cougar expects its cash and balance sheet position to be in a stronger state.

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Cougar is also pleased to announce that following a review of its underperforming contract with Beadell Resources Limited the terms of this contract have been revised on a retrospective basis to 1 November 2010. This contract is now expected to deliver expected revenues until completion, which is scheduled for completion in March 2011.

Following the completion of the Beadell contract, the company's RC drilling rig will be deployed to Company's gold prospects and assist in further delineation at the Ze Vermelho prospect within the Paranaita district, which is currently being mined, and the Cidinha, Flor da Serra, Peteca, Querioz and Filao do Luizao prospects within the Peixoto district.

The contract drilling market in Brazil and Uruguay remains buoyant with both of Cougar's contract drilling subsidiaries currently assessing proposals to provide contract drillings services.

For further information, please contact the undersigned on (08) 9381 1755.

Yours faithfully



RANDAL SWICK
Executive Chairman

About Cougar Metals NL

Cougar Metals NL is a Perth based exploration company listed on the Australian Securities Exchange (ASX:CGM). The company is focused on exploring the Alta Floresta Gold project in central west Brazil, where past production is estimated at five million ounces of gold. The company also operates a growing mineral drilling business in Brazil and Uruguay, providing surface diamond, reverse circulation and RAB drilling services to the Brazilian and Uruguayan mining industries. The company also holds the mineral rights to the Pyke Hill Measured and Indicated Resource of 14.7mt @ 0.9% Ni and 0.06% Co.

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Figure 1: Cougar's second RC rig expected to commence production in Uruguay in January 2011.

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Figure 2: One of 4 Diamond Drilling rigs currently employed at CDS's Uruguayan operations.