



## **QUARTERLY ACTIVITIES REPORT – DECEMBER 2010**

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### **Highlights of the Second Quarter**

#### **Exploration**

- **Trial mining commences at Ze Vermelho prospect, Paranaíta**
- **Auriferous quartz vein accessed by four existing timber-lined shafts over 150 metres of strike**
- **Initial 360 tonne bulk sample averages 27.8g/t, calculated from gold recovered in gravity concentrate**
- **Tailings retained for future treatment**
- **Targeted mining rate of 40 tonnes per day in the next three months**

#### **Mineral Drilling Division**

- **Revenue exceeded US\$4.5M**
  - **Extension of Uruguay drilling program**
  - **Expansion of Uruguayan drilling fleet**
  - **Revision of terms for an underperforming Brazilian contract**
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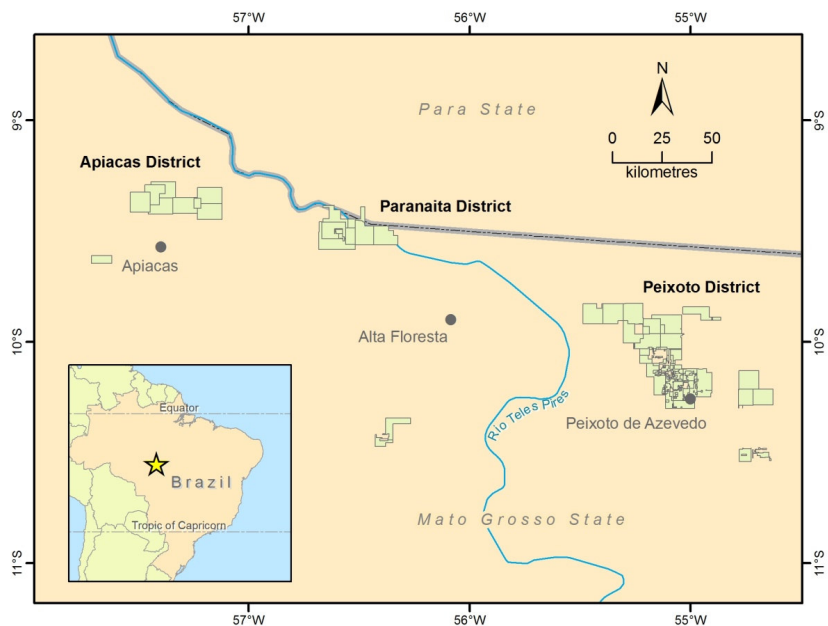
## EXPLORATION ACTIVITIES

### Background

Cougar Metals NL (“**Cougar**”, “**the Company**”) holds an exploration portfolio consisting of the Alta Floresta Gold Project in Brazil and the Pyke Hill Nickel/Cobalt Project in Western Australia.

The Alta Floresta Project is located within the Southern Amazon Craton in the northern portion of Mato Grosso State in central west Brazil (Figure 1). The Project comprises three groups of tenements covering approximately 1,450km<sup>2</sup> and distributed over a 330km long portion of the Alta Floresta gold belt (“AFGB”). Government records estimate past production from the AFGB in excess of five million ounces of gold, overwhelmingly via the processing of alluvial and shallow high grade quartz veins by garimpeiros (artisanal miners). The tenement groups are, from southeast to northwest, located in the Peixoto/Novo Mundo, Paranaita and Apiacas regions.

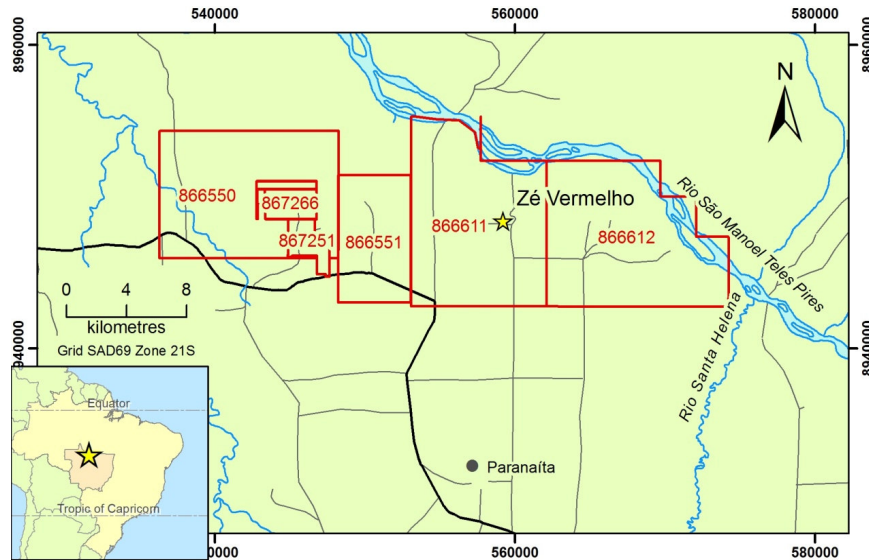
The Pyke Hill Project is located 40km southeast of the Murrin Murrin Nickel Operation in Western Australia. Cougar holds the nickel and cobalt laterite rights to the project, and in March 2008 published Measured plus Indicated Resources of 14.7 million tonnes grading 0.9%Ni and 0.06% Co for 131,621 tonnes of contained nickel metal (0.5% Ni cut-off).



**Figure 1: Location of Alta Floresta Project in Mato Grosso State, Brazil**

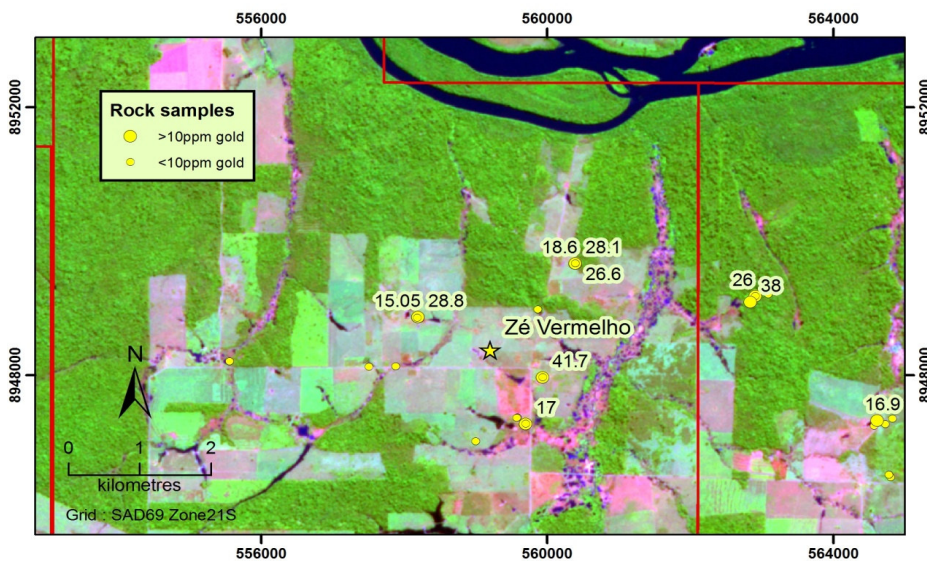
### Ze Vermelho

During the Quarter the Company’s wholly owned gold exploration subsidiary, Cougar Brasil Mineração Ltda (“**Cougar Brasil**”), reached an agreement with local mining operation company DOMA-Agronegócios E Mineração Ltda (“**DOMA**”) to explore and mine for gold at its Ze Vermelho prospect (“**the Mining Agreement**”). Subsequent to the end of the Quarter this agreement was terminated, bringing mining control and full ownership back to Cougar Brasil. The Company is having further discussions with DOMA in regards to the future treatment of existing tailings at Ze Vermelho.



**Figure 2: Location of Ze Vermelho Prospect, Paranaíta District, Mato Grosso State, Brazil**

Cougar applied for an exploration licence over Ze Vermelho in 2004. The Company undertook rock chip sampling in the Paranaíta area, some of which returned assay results in excess of 10g/t gold (Figure 3). Ze Vermelho was recognised as being of interest at that time, however, the exploration licence on which Ze Vermelho is situated was not granted until November 2009. In the intervening period, Cougar Brasil purchased the land upon which the Ze Vermelho prospect is located.



**Figure 3: Landsat image over Ze Vermelho Prospect, showing Cougar Brasil rock samples from 2004-2005 with anomalous gold assay values labelled. Garimpeiro workings are clearly visible**

The Company's recent geological and underground investigations of garimpeiro workings at Ze Vermelho include accessing the timber-lined shafts, which are developed to a maximum depth of 64 metres, and up to 150 metres of strike drives. All of the workings intercepted a northwest trending sulphide-rich quartz vein up to 1.3 metres wide. The vein predominantly occurs along the contact of a bluish-grey, biotite-monzogranite and a quartz-sericite mylonite up to 3 metres wide.

The Ze Vermelho vein is open along strike and to depth. Activities undertaken thus far include bulk sampling of the underground workings and surface stockpiles, surface rehabilitation and development along the -64 level. Five samples blasted from underground and six face samples of the vein returned gold values ranging between 23.1g/t and up to 80.5g/t (Table 1).

A 360 tonnes bulk sample was also treated to produce a gravity concentrate of 10 kilograms of gold, for an average recovered grade of 27.8g/t gold. The related tailings assayed between 7.1g/t and 190g/t gold, and will be treated with cyanide upon construction of an appropriate processing facility.

In December 2010, 166 tonnes of ore was processed through the site's gravity circuit, returning 2,832 grams of gold, for an average gravity recovered gold grade of 17.1g/t.

In January 2011, 271 tonnes of ore was processed through the site's gravity circuit, returning 5,874 grams of gold, for an average gravity recovered gold grade of 21.7g/t.

**Table 1: Results from underground sampling at Ze Vermelho prospect, Paranaíta District**

Sample	Location	Mining Level (metres below surface)	Sample type	Vein width (cm)	Au ppm	Ag ppm
130009	Shaft 1	-24	face	67	79.0	27
130023	Shaft 1	-24	face	52	54.9	35
130025	Shaft 2	-30	face	88	36.0	33
130026	Shaft 2	-30	face	114	59.1	42
130001	Shaft 3	-45	ROM	60	46.0	19
130003	Shaft 3	-53	ROM	55	23.1	21
130004	Shaft 3	-58	ROM	83	79.8	46
130005	Shaft 3	-64	ROM	123	69.8	19
130007	Shaft 3	-64	ROM	96	80.5	57
130028	Shaft 4	-32	face	102	51.7	45
130032	Shaft 4	-32	face	96	60.4	56

"ROM" indicates a 1 kilogram split from approximately 500 kilograms of underground bulk sample after crushing to less than 5 mm.

"face" indicates a chip or channel sample across vein in a face



**Figure 4: 67 cm wide quartz-sulphide vein which assayed 79g/t gold (Shaft 1, Sample 130009, -24 level)**

The Trial Mining Licence at Ze Vermelho allows for the extraction of up to 50,000 tonnes of mineralisation annually and can be extended for a period of up to 28 months upon approval by the National Department of Mineral Production.

The small scale gold operation at Ze Vermelho is currently self funding through the production of gold from development/exploration drives along the vein at the -64m level. This work is also expected to provide significant information on the geology and nature of gold mineralisation. The information gathered during mining will allow the Company to direct its exploration activities on the Ze Vermelho vein and on other veins in the area in an efficient manner.

Construction of a gold room, cyanidation ponds, explosives magazine and other infrastructure is currently underway.

### **Pyke Hill**

No new work was conducted during the Quarter. The Company continues to seek third parties who may have an interest in participation in the project.

## **MINERAL DRILLING BUSINESS ACTIVITIES**

### **Background**

Cougar's owns two contract drilling companies, GeoLogica Sondagens Ltda ("**GeoLogica**") and Palinir S.A. trading as Cougar Drilling Services – Uruguay ("**CDS**"), who service the mining sectors in Brazil and Uruguay respectively. Both companies provide rotary air blast ("**RAB**"), reverse circulation ("**RC**") and diamond drilling services.

### **Mineral Drilling Business Activity**

#### ***Brazil***

During the Quarter a review of the underperforming contract with Beadell Resources Limited saw the terms of this contract revised on a retrospective basis to 1 November 2010. This contract is now expected to deliver expected revenues until completion.

Since the end of the Quarter, GeoLogica has been awarded a US\$2.5M contract in the state of Para which will utilise the diamond drilling rigs currently employed at the Beadell contract. The new contract consists of 10,000 metres of diamond drilling which is expected to take 7 months to complete after commencement in February 2011.

Following completion of the Beadell contract, the Company's RC drilling rig will be deployed to the Company's own gold prospects with initial focus on:

- the Ze Vermelho prospect within the Paranaita district, which is currently being mined; and
- the Cidinha prospect, where outstanding gold channel sample assay results were returned last year over a strike length of 800 metres.

Revenue for the Quarter was US\$1.65M compared to US\$1.60M for the previous quarter.

## **Uruguay**

During the Quarter CDS reached 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 15,000 metres of diamond core and 55,000 metres of RC drilling. This has now been amended to 30,000 metres of diamond core and 50,000 metres of 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 US\$600,000 of working capital, which will be repaid 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 1 February 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 20,000 metres of RC and 10,000 metres 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\$1M per month, and peak in March and April at circa US\$1.8M 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.

Revenue for the Quarter was US\$2.92M compared to US\$1.07M for the previous quarter, as a result of increased rig employment.

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

## **PLANNED ACTIVITIES FOR THE NEXT QUARTER**

### **Exploration**

- Continued underground development from the -64 level at Ze Vermelho and processing
- Mobilisation of RAB rig to Ze Vermelho
- Mobilisation of RC rig to Ze Vermelho, Cidinha and other prospects

### **Mineral Drilling Business**

- Continuation of current drilling activities in Brazil and Uruguay

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

Yours faithfully



**RANDAL SWICK**

Executive Chairman

*The information in this report that relates to exploration results is based on information compiled by Dr Christopher Stephens who is a consultant to the Company. Dr Stephens is Principal of CJ Stephens Consulting Pty Ltd is a member of the Australian Institute of Geoscientists (AIG) and the Australia Institute of Mining and Metallurgy (AusIMM). Dr Stephens has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Dr Stephens consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

**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 growing mineral drilling businesses 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 plus Indicated Resources of 14.7mt @ 0.9% Ni and 0.06% Co (published March 2008).*

## Appendix 5B

### Mining exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

Cougar Metals NL

ABN

27 100 684 053

Quarter ended ("current quarter")

31 December 2010

#### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	4,026	6,726
1.2 Payments for (a) exploration & evaluation (b) development (c) production (d) administration	(87) - - (313)	(316) - - (681)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	1	2
1.5 Interest and other costs of finance paid	-	(7)
1.6 Income taxes paid	-	-
1.7 Other - drilling expenditure	(3,582)	(6,275)
<b>Net Operating Cash Flows</b>	<b>45</b>	<b>(551)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	- - (107)	- - (1,127)
1.9 Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets	- - -	- - -
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	7	7
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>(100)</b>	<b>(1,120)</b>
1.13 Total operating and investing cash flows (carried forward)	(55)	(1,671)

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(55)	(1,671)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	1,596
1.17	Repayment of borrowings	-	(148)
1.18	Dividends paid	-	-
1.19	Other – capital raising costs	-	-
	<b>Net financing cash flows</b>	-	1,448
	<b>Net increase (decrease) in cash held</b>	(55)	(223)
1.20	Cash at beginning of quarter/year to date	66	234
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	11	11

**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	14
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

1.23 includes salaries and superannuation contributions for all directors

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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Financing facilities available

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

**Estimated cash outflows for next quarter**

	\$A'000
4.1 Exploration and evaluation	200
4.2 Development	-
4.3 Production	-
4.4 Administration	120
<b>Total</b>	<b>320</b>

**Reconciliation of cash**

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	30	35
5.2 Deposits at call	29	31
5.3 Bank overdraft	(48)	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>11</b>	<b>66</b>

**Changes in interests in mining tenements**

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	N/A			
6.2 Interests in mining tenements acquired or increased	N/A			

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**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference +securities</b> <i>(description)</i>	3,425,725	-	\$0.125	\$0.001
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	406,223,576	406,223,576		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	9,000,000	-	<i>Exercise price</i> \$0.035	<i>Expiry date</i> 09 Sep 13
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>				

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7.12	Unsecured notes (totals only)		
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## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does /does not\* (*delete one*) give a true and fair view of the matters disclosed.

Sign here: Randal Swick  
(Director)

Date: 31 January 2011

Print name: Randal Swick

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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