

**Cougar Metals NL** is a Perth based exploration company listed on the Australian Securities Exchange (ASX:CGM).

The Company is focused on exploring the highly prospective Alta Floresta gold belt in central west Brazil, where it holds granted tenements covering an area in excess of 1,450km<sup>2</sup> and where past production is estimated at five million ounces of gold. Much of the immediate focus is centred on Ze Vermelho Gold Prospect where the Company has received numerous highly encouraging high grade gold assay results and where it is currently undertaking trial mining, which is providing important information about the structure and grade of mineralisation, whilst at the same time generating strong cash-flows from the treatment of the ore.

The Company also operates growing mineral drilling businesses in Brazil and Uruguay, providing surface diamond, reverse circulation and RAB drilling services to the rapidly growing South American mineral resource industry. The Company currently operates a fleet of 13 rigs with plans to grow this in the near future.

In addition, the Company also holds the mineral rights to the Pyke Hill Measured plus Indicated Resources of 14.7mt @ 0.9% Ni (March 2008).

#### Directors

Randal Swick – Chairman  
Jeff Moore – Director  
Paul Hardie – Director

#### Senior Management

Randal Swick – Managing Director  
Michael Fry – CFO & Company Secretary  
Jayme Leite – Exploration Manager

#### Capital Structure

Shares on Issue: 406,223,576  
52 week range: \$0.02 - \$0.11  
Last Price (19/10/11): \$0.059  
Market Capitalisation: \$23.9 million

#### Substantial Shareholders

Savvy Capital Management – 34.06%  
Marcia Swick – 19.61%  
Top 20 – 64.84%

## HIGHLIGHTS OF THE FIRST QUARTER

### *Ze Vermelho*

- 76.7 linear metres of exploration development achieved in the September quarter; new drive opened at -84 level.
- High grade ore shoot encountered at -54 and -84 levels
- Record gold production of US\$1.59 million from gravity circuit.
- Estimated 3,225 tonnes of gold rich tailings stockpiled for cyanidation at end of quarter.
- Cyanidation circuit construction continued throughout the quarter and is now commissioned (October) and operating.
- Geophysical contractor engaged - survey to commence in November; expected to greatly assist targeting of future drilling.

### *Regional Exploration*

- Maiden drilling program completed at Tamandua consisting of 5 holes for 387 metres of diamond core drilling completed; assays from first 2 holes only.
- Maiden drilling program commenced at Cidinha consisting of 10 holes for approximately 1,000 metres of diamond core drilling; assays pending for 8 holes.
- New gold prospect 'Baixo Velho' identified with maiden drilling program commenced in October.

### *Contract Mineral Drilling*

- September quarter revenue of US\$5.52m; Strong performance in Brazil with continued strong demand.
- Significant reduction of rigs in work expected from the end of October in Uruguay; efforts to relocate surplus rigs underway.

Cougar Metals NL (ASX Code: CGM) is pleased to provide its activities report for the quarter ended 30 September 2011.

## EXPLORATION ACTIVITIES

### Background

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

### Pyke Hill Project (Western Australia)

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 a Measured and Indicated Resources of 14.7 million tonnes grading 0.9%Ni and 0.06% Co for 131,621 tonnes of contained nickel metal (using a 0.5% Ni cut-off).

### Alta Floresta Project (Mato Grosso, Brazil)

The Alta Floresta Project is located within the Southern Amazon Craton in the northern portion of Mato Grosso State in central west Brazil (refer to Figure 1). The Project comprises three groups of tenements covering approximately 1,450km<sup>2</sup> and distributed over a 330km section of the Alta Floresta gold belt ("AFGB"). Government records estimate past production from the AFGB in excess of five million ounces of gold, principally 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, Paranaita and Apiacas regions.

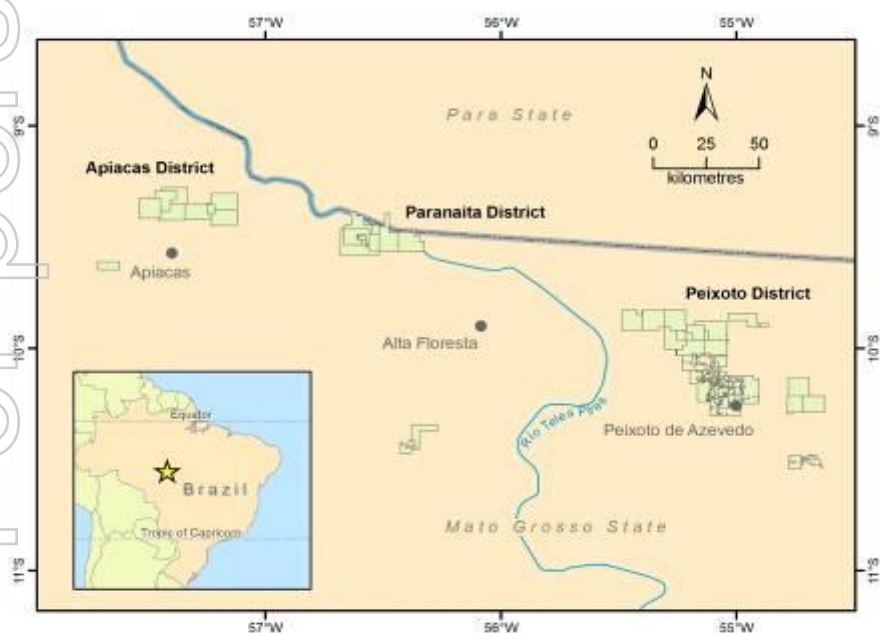


Figure 1: Location of Alta Floresta Project in Mato Grosso State, Brazil

## EXPLORATION UPDATE

### **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.

### **Ze Vermelho Prospect – Paranaita**

The Ze Vermelho Prospect consists of an historic open pit from which three shafts were sunk, the most significant of which extended approximately 50 metres underground. The Prospect was worked in the early 1990's but reportedly the plummeting gold price led to it being abandoned. Records reveal that the production from the open pit was approximately 70,000 ounces.

Earlier in FY2011 the pit was de-watered exposing the shafts, one of which was subsequently cleared of debris allowing access to, and the sampling of, the remaining vein structure. Encouraging results were obtained and a decision to continue exploration was made. Exploration is now primarily conducted by the development of underground drives through the structure and the subsequent processing of that material in addition to sampling.

Coinciding with the decision to explore through underground development the Company established a gravity processing plant. Analysis of the work to date indicates that the gravity treatment of the ore is effective in recovering approximately 35% of the contained gold. As of the date of this report the Company has now completed construction and commissioning of a cyanidation circuit at Ze Vermelho to complement the existing gravity circuit.

### **Infrastructure upgrade**

#### **Power**

During the quarter a high voltage power line, capable of supplying all of the Ze Vermelho operations power needs was installed. Cougar will pay R\$330,000 (~USD 180,000) for the construction costs of this line over a period of 10 months, with 4 monthly payments having already been met. Certification of the installed equipment is currently underway with power expected to be available in November. Significantly reduced expenses are expected as diesel powered generators are decommissioned and the mine compressor replaced by an electric unit.

#### **Cyanidation Circuit**

The cyanide circuit was largely completed during the quarter, and as of the date of this report has been commissioned. Cyanidation of the stockpiled tailings has now commenced with the first gold pour from this process expected in late November. Metallurgical testwork has demonstrated that recoveries in excess of 85% are likely.

In order to properly monitor the cyanidation process an atomic absorption machine has been ordered with the delivery expected in November. The delivery of this machine will not impact operation of the cyanidation circuit.

## Gold production and stockpiled tails

### Gravity Processing

During the quarter the company processed a total of 1,368t of ore and recovered through the gravity circuit a total of 29.59g of gold resulting in an average mean grade of 21.6 g/t of gold. The table 1 presents production results for the quarter.

Month	Tonnes Processed	Gravity Recovered Gold (g)	Grade (g/t from gravity)
July	432	10.799	25.0
August	482	10.152	21.1
September	454	8.639	19.0
<b>Total</b>	<b>1,368</b>	<b>29.590</b>	<b>21.6 (av.)</b>

**Table 1: Gravity Circuit Production for 1<sup>st</sup> Quarter 2012**

### Stockpiled Tailings for Cyanidation

The grade of the tailings from the gravity processing plant have been monitored and recorded on a daily basis. At the date of this report, data is only available for July and August, as shown in tables 2 and 3 below.

Control of Tailing ore grade			Month: July
Sample-ID	Date of collecting	Type of Sample	Au(g/t)
130259	1/7/2011	Centrifuge Overflow	6.15
130261	2/7/2011	Centrifuge Overflow	1.76
130262	5/7/2011	Centrifuge Overflow	119.26
130263	6/7/2011	Centrifuge Overflow	75.76
130264	7/7/2011	Centrifuge Overflow	67.32
130265	8/7/2011	Centrifuge Overflow	49.37
130266	9/7/2011	Centrifuge Overflow	22.79
130267	11/7/2011	Centrifuge Overflow	32.80
130268	13/7/2011	Centrifuge Overflow	29.72
130269	14/7/2011	Centrifuge Overflow	21.82
130271	15/7/2011	Centrifuge Overflow	3.81
130272	18/7/2011	Centrifuge Overflow	0.18
130273	19/7/2011	Centrifuge Overflow	9.23
130274	20/7/2011	Centrifuge Overflow	0.66
130275	25/7/2011	Centrifuge Overflow	3.76
130276	26/7/2011	Centrifuge Overflow	6.59
130277	27/7/2001	Centrifuge Overflow	43.39
130278	28/7/2011	Centrifuge Overflow	43.80
130279	29/7/2011	Centrifuge Overflow	31.11
Av. gold grade to Tailings (g/t)			29.96

**Table 2: July tailings grade assays**

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Control of Tailing ore grade			Month: August
Sample-ID	Date of collecting	Type of Sample	Au(g/t)
130281	1/8/2011	Centrifuge Overflow	10.97
130282	2/8/2011	Centrifuge Overflow	7.09
130283	3/8/2011	Centrifuge Overflow	0.98
130284	4/8/2011	Centrifuge Overflow	0.83
130285	5/8/2011	Centrifuge Overflow	0.92
130286	9/8/2011	Centrifuge Overflow	2.93
130287	10/8/2011	Centrifuge Overflow	1.64
130288	11/8/2011	Centrifuge Overflow	0.32
130289	15/8/2011	Centrifuge Overflow	120.65
130291	16/8/2011	Centrifuge Overflow	162.23
130292	17/8/2011	Centrifuge Overflow	110.45
130293	18/8/2011	Centrifuge Overflow	301.87
130294	19/8/2011	Centrifuge Overflow	81.97
Av. gold grade to Tailings (g/t)			61.76

**Table 3: August tailing grade assays**

At the end of the quarter an estimated 3,225 tonnes of tailings were stockpiled containing an estimated 2,292 ounces of gold expected to be recovered through cyanidation as shown in table 4.

Month	Tailings stocked (t)	Gold Grade g/t	Est. Contained Gold (oz)	Estimated recovery	Est. available gold (oz)
January	254	22.67	185.58	80	148.46
February	106	26.20	89.73	80	71.78
March	426	25.16	345.28	80	276.23
April	401	20.01	258.38	80	206.70
May	285	25.07	229.73	80	183.78
June	427	31.11	427.25	80	341.80
July	419	29.96	403.68	80	322.94
August	467	61.57	925.61	80	740.49
September	440	not available	not available		not available
<b>Total</b>	<b>3,225</b>		<b>2,865.24</b>		<b>2,292.19</b>

**Table 4: Summary of tailings stockpile.**

**Exploration:**

During the September quarter the Company completed 76.7 linear metres of drive development as shown in Table 5.

Summary of underground drive development at Ze Vermelho Project					
Level	Horizontal Drive	July	August	September	Subtotal
54	NW	-	14.40	-	14.4
64	NW	-	-	3.40	3.40
64	SE	-	-	-	-
74	NW	8.00	2.33	-	10.33
74	SE	5.45	4.81	-	10.26
84	NW	-	-	19.39	19.39
84	SE	-	-	-	-
Inclined Drive					
54_84	"-40_45"	5.90	3.55	1.58	11.03
74_54	"45_220"	6.93	-	0.97	7.9
Total		26.28	25.09	25.34	76.71

Table 5: Exploration Development for 1<sup>st</sup> quarter 2012

Channel samples taken from the various drives are shown in table 6 below.

Sample-ID	Type of Sample	Drive	Collecting point (m)	Au (g/t)
130316	Channel	-54 NW	2.60	17.55
130314	Channel	-54 NW	3.60	47.44
130311	Channel	-54 NW	4.98	348.51
130299	Channel	-54 NW	6.15	41.56
130309	Channel	-54 NW	7.57	25.60
130308	Channel	-54 NW	8.18	250.94
130306	Channel	-54 NW	9.21	382.54
130304	Channel	-54 NW	10.04	1.37
130312	Channel	-54 NW	11.27	4.99
130315	Channel	-54 NW	13.64	47.89
130321	Channel	-54 NW	18.23	4.55
130249	Channel	-40_45	16.03	144.44
130251	Channel	-40_45	19.32	29.95
130253	Channel	-40_45	23.48	6.02
130307	Channel	-40_45	26.24	4.08
130301	Channel	-40_45	26.54	38.06

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130305	Channel	-40_45	27.70	5.46
130313	Channel	-40_45	29.07	17.38
130324	Channel	-40_45	29.78	9.85

130239	Channel	-74 SE	17.82	1.40
130244	Channel	-74 SE	18.82	1.94
130246	Channel	-74 SE	20.63	0.38
130255	Channel	-74 SE	21.78	1.36
130258	Channel	-74 SE	22.88	3.69
130297	Channel	-74 SE	23.89	0.77
130298	Channel	-74 SE	25.39	1.09
130303	Channel	-74 SE	26.92	0.35
130322	Channel	-74 SE	28.30	0.68
130323	Channel	-74 SE	29.60	0.30

130241	Channel	-74 NW	28.06	79.43
130243	Channel	-74 NW	28.90	5.81
130245	Channel	-74 NW	30.51	11.76
130247	Channel	-74 NW	31.59	4.32
130254	Channel	-74 NW	32.50	8.93
130295	Channel	-74 NW	33.48	6.49
130302	Channel	-74 NW	36.05	14.40
130317	Channel	-74 NW	37.15	7.52

**Table 6: Underground channel sample results.**

**Commentary on underground exploration:**

- Results from -54 level confirm the up-dip extension of the high grade ore shoot encountered at lower levels.
- Samples shown for the -40\_45 drive were taken between level -74 and -84 levels.
- Samples shown for the -74 SE and -74 NW drive are outside of the ore shoot sampled in the previous quarter.
- Samples from the -84 level have not been returned from the assay laboratory, however the high grade ore shoot was encountered. The gravity recovered grade from the -84 level (inclusive of diluting material) was 27.2g/t.
- Ze Vermelho's high grade ore shoot remains open up and down dip.

**Surface Exploration:**

During the quarter 693 metres of diamond drilling was conducted at Ze Vermelho, across 6 drill holes. Narrow intersections of low grade material were intercepted and structural interpretation is currently underway.

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An Induced Polarisation and Electro Magnetic survey is to commence in late November, with this program expected to provide significant guidance for the targeting of future drill holes by highlighting areas of pyrite concentration. Underground workings at Ze Vermelho have identified that in the main, high grade gold is associated with high concentrations of pyrite.

Assays for the first two drill holes from Tamandua and Cidinha prospects have been received. Whilst the expected structure was intersected at both prospects, no gold grades of significance were returned. Given that a further 3 and 8 holes respectively were drilled at Tamandua and Cidinha respectively, the Company believes it is too early to draw any conclusions in respect of these prospects and eagerly awaits further assay information.

#### **Contract Drilling Business.**

Revenue for the quarter remained strong at USD \$5.52 million.

Notice has now been received in Uruguay from the principal client, where the Company had 4 rigs employed, that the project will reduce to 1 rig from November whilst the client attempts to resolve issues around the attaining of a mining license and levels of government support for its project. The timeframe for resolution of these matters is unclear and for the time being we will work at a reduced level. The client has indicated that when and if the issues can be resolved they will return to more normal levels of activity and drilling demand.

Accordingly, the Company is now investigating options to deploy excess equipment to other markets where demand remains strong. As a result of the Uruguayan scale back and the logistics involved in transportation of rigs and associated equipment it is expected that revenues from contract drilling will be affected for up to 3 months whilst surplus machines are re-located. The Company is however confident of placing the surplus rigs in work in the short term.

The Brazilian operations performed well during the quarter with Revenue of US\$ 1.67 Million plus drilling services valued at US\$ 280,000 provided to Cougar's exploration division. Brazilian demand remains strong with all available rigs fully employed.

#### **Activities for 2<sup>nd</sup> quarter 2012:**

##### **Exploration:**

Cyanidation of stockpiled tailings at Ze Vermelho

Continuation of exploration drilling at Ze Vermelho, Cidinha and Baixo Velho, a new prospect.

Commissioning of the new power circuit at Ze Vermelho

Exploration of Ze Vermelho's -94m level

##### **Drilling Division:**

Continued supply of 2 diamond drilling rigs for Company's own exploration activities

Continuation of contract drilling in Brazil and Uruguay; with focus on redeploy of rigs

For further information please contact the undersigned via email at [r.swick@cgm.com.au](mailto:r.swick@cgm.com.au) or alternatively contact Michael Fry (CFO & Company Secretary) on +61 8 9381 1755.

Yours sincerely

COUGAR METALS NL



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.*

*The information in this report that relates to Mineral Resources has been compiled by Mr Paul Payne. Mr Payne, is a Member of the Australasian Institute of Mining and Metallurgy, is a full time employee of Runge Limited and has sufficient relevant experience to the style of mineralisation and type of deposit under consideration and to the activity that he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves. Mr Payne consents to the inclusion in this document of the matters based on his information in the form and context that the information appears.*