



ASX Announcement – 29 October 2010

No. of Pages: 7

QUARTERLY ACTIVITIES REPORT – SEPTEMBER 2010

Highlights of the First Quarter

Exploration

- **Cidinha Prospect, Peixoto returns high grade gold values, up to 800g/t over 650m of strike and remains open along strike**
- **High-grade gold results returned at Cidinha Prospect, from 300 kg bulk samples.**

Mineral Drilling Division

- **Receipt of final instalment under US\$2M advance - Uruguay**
 - **Drilling operations commence – Uruguay**
 - **Beadell contract commences - Brazil**
 - **Quarterly revenue for drilling divisions of US\$2.6M**
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EXPLORATION ACTIVITIES

Background

The Company's exploration portfolio consists 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 1,450km² 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 garimperos (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 which hosts JORC compliant 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 (0.5% Ni cut-off).

Exploration activities during this quarter focused on the Cidinha Prospect, within the Peixoto District, forming part of the Company's ongoing target evaluation process at its Alta Floresta Project.

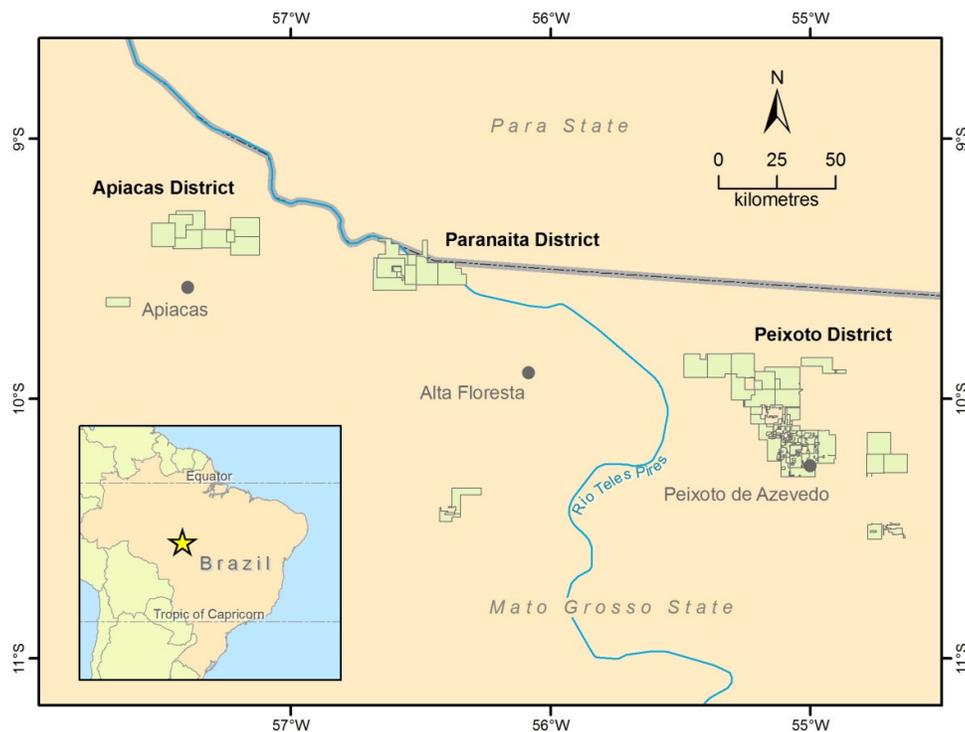


Figure 1: Location of Alta Floresta Project in Mato Grosso State, Brazil

Cidinha Prospect

Since commencement of work on target development, 17 out of 20 target areas have been mapped and sampled, with 7 of the 17 targets also being trenched. To date, 832 metres of trenching, mapping, rock chip and channel sampling have been completed, with the Cidinha prospect proving to be of particular interest. Cidinha is characterised by the presence of high-grade gold mineralisation in quartz veins up to 1.2 metres wide with good continuity of mineralisation along strike.

Historically, Cidinha was subjected to artisanal (garimpeiro) mining, as is evidenced by sporadic pitting developed over a strike length of 500 metres and up to 30 metres deep. Four shallow shafts have been worked to a maximum depth of 40 metres.

Mapping and trenching by Cougar has exposed a northeast-southwest striking shear hosting a 0.10 metre to 1.2 metre wide sulphide-quartz-vein within or close to the contact between sheared granite and a dolerite dyke. Cougar has sampled quartz veins over a strike length of 500 metres, however the structure has been mapped over a strike length of 650 metres and is open to the northeast and to the southwest.

Gold assays from the rock chip, channel and bulk samples confirm the high-grade nature of the Cidinha target, returning assay results from **1.72g/t up to 800g/t Au**. The assay results are detailed in Table 1, below.

The Company is presently negotiating with the relevant land owners to enable unrestricted access to all parts of the prospect area as a precursor to commencing a 2,000 metre drilling programme to test the structure below and along strike from the old garimpeiro workings.

| Sample No | Easting (mE) | Northing (mN) | Au (g/t) | Detailed Description |
|-----------|--------------|---------------|-------------|---|
| 120024 | 26941 | 13156 | 27.4 | 0.45 m wide Quartz vein with 5% pyrite |
| 120025 | 26941 | 13154 | 20.8 | 0.56 m wide Quartz vein with 5% pyrite |
| CPTR002 | 26999 | 13238 | 200 | 2 kg of 0.55 m wide quartz vein sample |
| CPTR002A | 26999 | 13238 | 14.0 | 293 kg of 0.55 m wide quartz vein sample |
| 120016 | 27053 | 13304 | 4.23 | 0.80 m wide Quartz vein with trace pyrite |
| CPTR001 | 27084 | 13340 | 800 | 2kg of 0.60 m wide quartz vein sample |
| CPTR001A | 27084 | 13340 | 21.0 | 333 kg of 0.60 m wide quartz vein sample |
| 120012 | 27141 | 13312 | 4.92 | 10 cm wide quartz vein |
| 120019 | 27184 | 13578 | 1.72 | 1.20 m wide Quartz vein with trace pyrite |
| 120018 | 27220 | 13572 | 2.94 | 0.35 m wide Quartz vein with trace pyrite |
| 120001 | 27594 | 13704 | 90.0 | Float Quartz vein fragments |
| 120003 | 27594 | 13714 | 49.0 | Float Quartz vein fragments |
| 120002 | 27598 | 13716 | 3.05 | Float Quartz vein fragments |

Locations in Cidinha Local Grid

Table 1: Significant Rock Chip, Channel and Bulk Sampling Gold Assay Results, Peixoto District, Alta Floresta Gold Project



Figure 2: Cougar Exploration Manager Jayme Leite at Sample 120019 (1.72g/t gold), Cidinha Prospect, Alta Floresta Gold Project



Figure 3: Trench sampling at Cidinha Prospect, Alta Floresta Gold Project



Figure 4: Processing of a bulk sample at Cidinha Prospect, Alta Floresta Gold Project. Note the typical garimpeiro pit, now filled with water, in the background.

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. Cougar's fleet currently consists of 5 track mounted surface diamond rigs, two RD drilling rigs and one RAB rig.

Mineral Drilling Business Activity

Brazil

During the quarter work commenced on the 20,000 metre drilling contract at Beadell Resources Limited's Amapari project. To date the contract has failed to deliver the expected revenues. A continuous program of assessment has been implemented to improve logistics, support and ultimately production. Management will continue to monitor the contract's performance closely and take corrective action where possible.

Other contracts within Brazil have performed well. GeoLogica's revenue for the quarter (net of VAT) was approximately US\$1.5 million and was in line with the previous quarter's revenues.

Uruguay

During the quarter Cougar received the final instalment (being US\$300,000) of the US\$2 million advancement to be provided to the Company to assist in the acquisition and deployment of rigs and associated equipment to conduct works under the Memorandum of Understanding for its 75,000 metre Uruguayan drilling programme.

Two new diamond drilling rigs were received by the Company during the quarter and commenced work on August 20, 2010. The Company also had two RC rigs (one hired) commence work on the contract during the quarter.

The contract is now delivering the expected revenues. However, a slow ramp up and delays beyond the Company's control have hampered operations, and as a result the expected completion date (31 December 2010) will not be met. The Company is currently negotiating the terms of a new contract that will extend into 2011.

An additional RC rig commenced construction in Perth during the quarter and is expected to be delivered to the project in late December 2010.

Revenues for the quarter in Uruguay were approximately US\$1.1 million, of which US\$272,000 was discounted and applied to the repayment of the US\$2 million advance. Invoices totalling US\$245,000 (which are not included in the above figure) were levied against the client for standby charges as a result of delays beyond the Company's control, and remain challenged. The company intends to pursue the payment of these invoices through arbitration. Despite this challenge, relations between the Company and the client remain excellent and co-operative.

CORPORATE ACTIVITIES

As noted above the Company received the final advancement of US\$300,000 due under the Memorandum of Understanding with respect to its Uruguayan drilling programme. However all these funds were applied immediately towards the purchase of equipment associated with the Uruguayan drilling programme.

In addition, the Company entered into a short term loan arrangement with Rosanne Swick, the Company's major shareholder, whereby Rosanne Swick provided a loan for A\$500,000, which is interest bearing and repayable in A\$50,000 instalments commencing 30 November 2010. The Board made the decision to put in place this short term funding arrangement as a precautionary measure to ensure that all drilling activities would continue to operate as normal in light of the delays and capital expenditure requirements noted above.

Cash on hand as at 30 September 2010 was A\$66,000. Given the nature and timing of receipt of revenues by the Company the cash balance can vary significantly during the course of any quarter. Since the end of the quarter the Company has received over US\$500,000 in revenue from the ongoing provision of drilling which will allow the Company to meet its future commitments.

During the quarter the Company held a General Meeting of Shareholders. Shareholders approved to restore the Company's discretionary power to issue up to 15% of the issued capital in further securities without shareholder approval, the re-election of Paul Hardie as a Non-Executive Director and the issue of 3 million options (exercisable at 3.5c, expiring on or before 9 September 2013) to each Director, being Randal Swick, Jeff Moore and Paul Hardie.

PLANNED ACTIVITIES FOR THE NEXT QUARTER

Exploration

- Continue mapping, sampling and trenching of identified target areas.
- Continue negotiations with the relevant land owners to enable the commencement of a drilling programme at the Cidinha prospect.
- Develop a geophysical program to identify further targets with the Peixoto district.

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 JORC compliant Measured and Indicated Resource of 14.7mt @ 0.9% Ni and 0.06% Co.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

COUGAR METALS LIMITED

ABN

27 100 684 053

Quarter ended ("current quarter")

30 September 2010

Consolidated statement of cash flows

| Cash flows related to operating activities | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|---|----------------------------|---------------------------------------|
| 1.1 Receipts from product sales and related debtors | 2,700 | 2,700 |
| 1.2 Payments for | | |
| (a) exploration & evaluation | (229) | (229) |
| (b) development | - | - |
| (c) production | - | - |
| (d) administration | (368) | (368) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 1 | 1 |
| 1.5 Interest and other costs of finance paid | (7) | (7) |
| 1.6 Income taxes paid | - | - |
| 1.7 Other – drilling expenditure | (2,693) | (2,693) |
| Net Operating Cash Flows | (596) | (596) |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: | | |
| (a) prospects | - | - |
| (b) equity investments | - | - |
| (c) other fixed assets | (1,020) | (1,020) |
| 1.9 Proceeds from sale of: | | |
| (a) prospects | - | - |
| (b) equity investments | - | - |
| (c) other fixed assets | - | - |
| 1.10 Loans from other entities | - | - |
| 1.11 Loans repaid by other entities | - | - |
| 1.12 Other (provide details if material) | - | - |
| Net investing cash flows | (1,020) | (1,020) |
| 1.13 Total operating and investing cash flows (carried forward) | (1,616) | (1,616) |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

| | | | |
|------|--|---------|---------|
| 1.13 | Total operating and investing cash flows (brought forward) | (1,616) | (1,616) |
| | Cash flows related to financing activities | | |
| 1.14 | Proceeds from issues of shares, options, etc. | - | - |
| 1.15 | Proceeds from sale of forfeited shares | - | - |
| 1.16 | Proceeds from borrowings | 1,596 | 1,596 |
| 1.17 | Repayment of borrowings | (148) | (148) |
| 1.18 | Dividends paid | - | - |
| 1.19 | Other (provide details if material) | - | - |
| | Net financing cash flows | 1,448 | 1,448 |
| | Net increase (decrease) in cash held | (168) | (168) |
| 1.20 | Cash at beginning of quarter/year to date | 234 | 234 |
| 1.21 | Exchange rate adjustments to item 1.20 | - | - |
| 1.22 | Cash at end of quarter | 66 | 66 |

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 | 35 |
| 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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| |
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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 | - | - |

+ See chapter 19 for defined terms.

Estimated cash outflows for next quarter

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

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 | 35 | 3 |
| 5.2 | Deposits at call | 31 | 231 |
| 5.3 | Bank overdraft | - | - |
| 5.4 | Other (provide details) | - | - |
| Total: cash at end of quarter (item 1.22) | | 66 | 234 |

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 | | |

+ See chapter 19 for defined terms.

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 Preference securities <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 +Ordinary securities <i>(description)</i> | 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 +Convertible debt securities <i>(description)</i> | | | | |
| 7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | | | | |
| 7.7 Options <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 | 9,000,000 | - | \$0.035 | 09-Sep-13 |
| 7.9 Exercised during quarter | | | | |
| 7.10 Expired/cancelled during quarter | | | | |
| 7.11 Debentures <i>(totals only)</i> | | | | |
| 7.12 Unsecured notes <i>(totals only)</i> | | | | |

+ See chapter 19 for defined terms.

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 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: Randal Swick
 (Director)

Date: 29 October 2010

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 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting 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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