



Ze Vermelho Production Update

ASX Announcement

4 January 2012

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 1,450km² 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 (3/1/12): \$0.06
Market Capitalisation: \$24.4 million

Substantial Shareholders

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

HIGHLIGHTS

- 1st cycle of cyanide circuit nearing completion with 5,479g of gold recovered from a vat calculated to contain 6,855g of gold, representing a recovery rate of 79.9%.
- Gold grades of up to 177g/t encountered in incline development drive towards -94 level.
- Strong gold production achieved during November and December with 24,826g (~798 oz) of gold sold generating ~US\$1.4 million.
- Following successful trial operation of cyanide circuit, decision reached to commence construction of an additional 2 leaching ponds to escalate processing capability.

Cougar Metals NL (ASX Code: CGM) is pleased to provide this brief update with respect to gold production at its Ze Vermelho Gold Mine.

Gold production

Gold production (on a combined basis) from the gravity plant and the cyanide circuit during the month of November totalled 11,844g (~381 ounces), and during the month of December totalled 12,982g (~417 ounces).

On a combined basis, for the months of November and December, gold production totalled 24,826g (~798 ounces of gold).

Sale of the gold generated revenues of US\$624,829 during November and US\$777,714 during December; for a combined total of US\$1,402,543.

Gravity Plant

In total, 435t of ore was processed through the gravity plant during the months of November and December and yielded 19,347g (~622 ounces) of gold.

Cyanide Circuit

Treatment of material in the first vat (VAT01) is nearing completion with an additional two, 3-day cycles forecast to be undertaken until it is expected that the gold content in the liquor solution will fall below 0.5 g/t, at which point it is uneconomic to continue to cycle.

Following the last cycle of VAT01, the leaching pond will be emptied and then re-filled with tailings from the gravity plant and a new cyanide leaching cycle commenced – likely to be by mid-January. The second cycle (VAT02) can be expected to process approximately 500t.

VAT01 was filled with approximately 440t of medium grade tailings calculated to contain approximately 6,850g (~220 ounces) of gold (~15.5 g/t).

To date, 5,479g of gold (~176 ounces) has been recovered from VAT01, yielding a recovery rate thus far of 79.9%.

Modifications to the circuit and refinements of the process have been identified which will speed up recovery of future cycles.

In summary, the Company is extremely pleased with the results of its first full cycle of the cyanide circuit which has demonstrated the leach-ability of the ore and that high rates of recovery are achievable in a relatively short timeframe.

Bouyed by the success of this first vat, the Company has decided to construct two (2) additional leaching ponds and related infrastructure in order to increase its processing capability. Work will commence on construction of the additional ponds and related infrastructure as soon as weather permits.

Development

During the month of December an incline drive linking the -84 level with the -94 level was commenced. This drive is located such that it generally follows the high grade ore shoot on its downward trajectory.

Regular measurements have been taken of the mineralised vein over the length of the incline drive and have determined the vein to vary in thickness between 0.55 metres and 1.20 metres, with the sulphide content calculated being up to 70%. Treatment of the ore in batches through the gravity plant has led to gold recoveries ranging from 75g/t to 177g/t.

Infrastructure upgrades have recently been completed within the mine and as a consequence it is expected that ore production will increase from the start of this quarter.

Summary

With the cyanide circuit now on-line and future efforts to be focused on enhancing production capacity (i.e the construction of the additional two leaching ponds, and infrastructure upgrades within the mine to increase the rate of ore extraction), it can be expected that gold production from the Ze Vermelho Gold Mine will significantly increase in the coming months.

For further information please contact the undersigned via email at 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