

Toamasina Graphite Project Update

Cougar Metals NL (“Cougar” or “the Company”) wishes to provide an update regarding the Toamasina Graphite Project in Madagascar.

As reported in Cougar’s ASX Release dated December 6, 2017 the Company received a Notice of Default from DNI Metals Inc (“DNI”) regarding the earn-in agreement dated 24 March, 2017 (“the Agreement”) over the Vohitsara Graphite Project (also known as the Toamasina Graphite Project).

The notice from DNI claims Cougar is in default of the Agreement for:

1. Failing to provide a NI43-101 Resource report to DNI by October 31, 2017 or a further extended date of November 20, 2017; and
2. Failing to make payments to DNI of AUD\$29,333.33 for the provision of management services in Madagascar, to assist Cougar complete its earn-in obligations.

On Thursday December 7, 2017 Cougar served DNI a Notice to Arbitrate. The London Court of International Arbitration (“LCIA”) has been provided a copy of the request to arbitrate and has commenced the management of the process. DNI is required to participate in the process.

On Friday December 8, 2017 DNI Metals served Cougar with a “Notice of Termination”, relying on the claim that Cougar failed to rectify the purported defaults within 7 days, in particular the default regarding the payment of AUD\$29,333.33

Details of Relief sought

Cougar has detailed, within the arbitration proceedings, the relief sought as follows:

- (a) an order quashing DNI’s notice of default and ordering specific performance of the Definitive Agreement, including an order extending the time for the performance of Cougar’s obligations, including all steps required for the work program referred to in section 5.3 of the Definitive Agreement, and including an order requiring DNI to obtain a valid mining licence, and to provide adequate protection and security for Cougar’s employees and contractors against unlawful arrest, imprisonment or other harassment;
- (b) alternatively, damages for breach and improper termination of the Definitive Agreement in the amount of US\$6.0 million per year for the life of the Project, being approximately 50% of the profits projected by DNI, on the basis of production of 12,000 tonnes of graphite per year at a margin of approximately US\$1,000 per tonne;
- (c) in the further alternative, an order for rescission of the Definitive Agreement, including payment to Cougar of all amounts paid by it to DNI, plus all amounts paid by Cougar in relation to the Project, plus damages for Cougar’s loss of bargain in the amount of US\$6.0 million per year for the life of the Project;

- (d) damages resulting from DNI's misrepresentations to the market in press releases and in other statements published to third parties, in the amount of US\$5 million; and
- (e) its full legal and arbitral costs.

“Notice of Termination” received from DNI Metals.

Cougar believes the “Notice of Termination” received from DNI is inoperable on the following grounds:

(a) Noncompliance: -

The Agreement states under clause 5.4 (b) iii, “If Cougar has not remedied the Default within the time prescribed or referred the Default to arbitration, to the extent permitted, within the time prescribed, DNI may terminate this Agreement at its option without further action or delay.”

As Cougar has referred the Default to arbitration, to the extent permitted, DNI cannot terminate the Agreement; alternatively

(b) charges: -

The AUD\$29,933.33 claimed by DNI under Section 5.2 (c) of the Agreement related to Management fees; “.... representing payment for the main focus of the DNI Madagascar team to assist Cougar’s Earn In”.

Cougar claims DNI’s Management team were proactively delaying, rather than assisting, its Earn In since August the charges are legitimate; and alternatively

(c) Not Invoiced: -

On every prior occasion, as agreed between the parties, DNI has issued invoices to Cougar for the Management fees detailed within Clause 5.2 (c) of the Agreement. Following the receipt of the Notice of Default, Cougar notified DNI that it had not issued these invoices and requested DNI to do so covering the appropriate period. DNI did not respond to Cougar’s request.

Outstanding Information Sought from DNI Metals:

Cougar awaits a response from DNI Metals to the following queries in relation to the representations and warranties provided by DNI under the Agreement, as requested by Counsel for Cougar on November 3, 2017:

1. certified copy of the Exploitation Licence “PE38642” over the Vohitsara property;
2. certified copies of the Environmental Permit and the mandatory Environmental Impact Statement necessary for the drilling program at Vohitsara; and

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3. an official copy of the mandatory Plan of Operations agreed between the permit holder and the Mines Department prior to the commencement of any drilling program.

Cougar will advise the market upon receipt of a reply to these queries.

Further commenting upon the recent developments between DNI and Cougar, Cougar's Managing Director, Randal Swick said:

"Cougar understands the seriousness of the claims made against DNI and its management and does not do so lightly. We believe the evidence regarding these claims in respect of DNI's conduct in Madagascar is compelling and irrefutable and look forward to presenting this evidence in arbitration or any other forum DNI or its management chooses to refute our claims".

For further information please contact the undersigned via email at r.swick@cgm.com.au

A handwritten signature in black ink that reads "Randal Swick".

RANDAL SWICK
Executive Chairman