Toamasina Graphite Project Update

Cougar Metals NL provides an update regarding the Toamasina Graphite Project in Madagascar.

Following the close of ASX trading on Friday December 1, 2017 Cougar Metals NL (“Cougar” or “the Company”) was received a Notice of Default from DNI Metals Inc (“DNI”) in regards to the earn-in agreement dated 24 March, 2017 (“the Agreement”) over its Vohitsara Graphite Project (also known as the Toamasina Graphite Project).

This Notice of Default follows a request to DNI from Cougar for extensions to Agreement milestones following a number of significant delays beyond Cougar’s control as announced to the ASX on 31 October 2017.

The default 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.
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.

Notice to Arbitrate:
In response to the Notice of Default received on December 1, 2017 Cougar will elect to arbitrate the following claims in respect to DNI’s conduct:

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 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$1000.00 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.

Response to Press releases by DNI:

On Friday December 1, 2107 and Monday December 4, 2017 DNI Metals Inc. issued press releases making various assertions regarding Cougar’s performance at the Vohitsara Graphite Project.

DNI Metals has failed to accurately describe the circumstances leading to Cougar’s inability to complete its earn-in obligations and Cougar provides the following information to supplement, clarify and refute various statements made by DNI.

Most notably, DNI makes no reference to the arrest of Cougar’s driller, Mr. Amarildo Moura, and the attempted arrest of Cougar’s Managing Director, Mr. Randal Swick, in Madagascar, orchestrated by DNI. Cougar believes that these two final instances of DNI’s delaying tactics, prior to all works ceasing on the project on October 3, 2017, were criminal in nature. The arrest and subsequent incarceration (without trial) of Mr. Moura was orchestrated by DNI, specifically targeting Mr. Moura without any credible basis of the alleged wrongdoing. Furthermore, the management and directors of DNI failed to act and have Mr. Moura released from jail, despite being provided with clear evidence that there was no basis for charges to be made against him.

DNI also falsely advised Cougar’s Managing Director, Mr. Randal Swick, that Mr. Moura requested his physical presence in Madagascar on several occasions. Upon arriving in Madagascar on October 9th, 2017 Mr. Swick briefly met with DNI’s Managing Director, Mr. Dan Weir on that evening. The following morning Mr. Swick was advised that a warrant for his arrest had been issued, after a police complaint was lodged by DNI. Mr. Swick immediately left the city of Toamasina and upon passing the project area confronted Mr. Weir, who denied all knowledge of the arrest warrant for Mr. Swick and any involvement in the arrest of Mr. Moura.

Despite Mr. Weir’s authority to remove the complaints against Mr. Moura, and secure his immediate release from the horrendous conditions of a Malagasy regional jail, nothing was done until October 27, 2017 (24 days after his initial arrest) when, immediately prior to Mr. Moura’s trial, DNI withdrew the unfounded allegations and Mr. Moura was immediately released.

Similarly, DNI has failed to withdraw the false complaint against Mr. Swick, despite advising Cougar that it would do so on October 16, 2017.

Despite the many attempts by Cougar’s Managing Director to discuss the various issues at site with DNI management, DNI has refused to communicate directly with Mr. Swick since October 5, 2017 – save for emails related to the delivery of the Notice of Default. As such, Cougar has had no option but to communicate with the DNI through legal counsel since that date.
Mr. Weir and DNI management failed to respond in a timely manner to the numerous requests to justify the charges against Mr. Moura and Mr. Swick, or have them withdrawn. Accordingly, both individuals are taking legal action, in Canada, against DNI, Mr. Weir and his fellow directors for, among other claims, false imprisonment and attempted false arrest.

In addition to the risk of false charges being made against Cougar personnel, additional delays beyond the control of Cougar were incurred. A claim that these issues were in the control of DNI will form part of the arbitration proceedings.

**Earn-In period extensions:**

Cougar has requested two extensions to complete its earn-in obligations. DNI has misrepresented the nature of these requests in its press releases. The facts surrounding these requests follow:

1. The first extension was requested by Cougar on June 23, 2017 for a three-month period. This was amended on July 24, 2017 to a four-month extension for the delivery of a Resource report (to 31 October, 2017) and a two-month extension for the delivery of the PEA to NI 43-101 standards (to December 31, 2017). The extension was requested on account of delays in accessing the Main Zone beyond Cougar’s control prior to June 14, 2017, Cougar reserved the right to make further requests for delays beyond its control, post June 14, 2017.

DNI site management organised a river crossing and road construction in order for Cougar’s drill rig and support equipment to access the Main Zone at the Project. DNI selected the contractor and equipment and managed the site workforce. Cougar co-operated fully with DNI, adopting DNI’s recommendations in this regard and funding the works. The works took four months longer than the time anticipated (by DNI) to complete, hence the requested extension.

Following Cougar’s request for the earn-in extension on June 23, 2017 the following events transpired:

a. Between June 23, 2017 and July 7, 2017 Cougar made repeated calls for a response to the requested extension, to no avail;

b. On July 7, 2017 DNI issued Cougar a Notice of Default (which was defective);

c. On July 9, 2017 DNI offered Cougar a 60-day extension for the Resource Report and a 30-day extension for the PEA Report, on the condition that 1000m of diamond drilling would be completed. In the alternative, DNI offered to refund Cougar’s expenditure to date for a cancellation of the Agreement. Both offers were rejected by Cougar as neither offer conformed with the requested extension;
d. On July 15, 2017 DNI offered Cougar a 90-day extension for the Resource and PEA Report on the proviso that 1000m of diamond drilling would be completed. Cougar rejected the offer on the basis that it did not conform with the requested extension;

e. On July 21, 2017 DNI offered Cougar a 60-day extension for the Resource Report and a 30-day extension for the PEA, without the diamond drilling requirement. Cougar rejected the offer on the basis that it did not conform to the requested extension.

f. On August 9, 2017 DNI offered Cougar a 120-day extension for the Resource Report and a 60-day extension for the PEA – as per Cougar’s request. However, DNI also included various conditions unacceptable to Cougar. As such Cougar rejected the offer;

g. On August 16, 2017 DNI repeated the offer to Cougar as per August 9, 2017 removing some of the unacceptable conditions. Cougar rejected the offer; and

h. On August 19, 2017 Cougar received clarification, by email, from DNI that the extension is unconditional and in accordance with Cougar’s request.

2. A second extension for the earn-in deliverables was sought by Cougar on October 26, 2017 through counsel. A further 100 days to complete the resource Report and PEA was sought for delays beyond Cougar’s control relating to the period June 14, 2017 through to October 26, 2017. The request included delays due to bulldozer unavailability, lack of site access due to landholder negotiations and the arrest and imprisonment of Cougar’s driller at DNI’s behest.

DNI responded to this request on October 31, 2017 granting an extension of 20 days, being the days between the orchestrated arrest of Mr. Moura on October 3, 2017 and the appointment of Mr. Scott Reid as Cougar’s country manager, on October 22, 2017.

On November 3, 2017 Cougar advised DNI that Mr. Reid was not a driller and in any event, in the absence of a guarantee from DNI that Cougar personnel would not be falsely arrested or otherwise harassed, Cougar was unwilling to send workers onto the Project. As DNI had, in Cougar’s opinion, unreasonably withheld the requested extension, Cougar served DNI with a Notice of Default within the meaning of the Agreement.

A letter further detailing the lost time due to factors beyond Cougar’s reasonable control was sent to DNI on November 29, 2017, and invited DNI to refute the days claimed. A total of 121 days of lost time between June 14, 2017 and October 31, 2017 was detailed, which included 41 days of stoppages whilst DNI negotiated land access agreements, 40 days of bulldozer unavailability and 31 days due to the false arrest of the site bulldozer driver and Mr. Moura. DNI did not refute the delays detailed in the table, but instead chose to deliver a notice of default on December 1, 2017.
Commenting upon the recent developments between DNI and Cougar, Cougar’s Managing Director, Randal Swick said:

“Cougar is bitterly disappointed with recently failed negotiations resulting in DNI delivering a Notice of Default. Cougar has many outstanding queries with respect to DNI’s conduct and will bring these to the attention of DNI shareholders, not only to ensure transparency but also avoid the further destruction of Cougar and DNI shareholders wealth. Cougar has nothing to hide and will, as one would expect, enforce its rights and protect the Company and its shareholders.”

Exploration on the Toamasina Graphite Project by Cougar has currently been suspended pending resolution of the above matters with DNI as stated.

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

RANDAL SWICK
Executive Chairman