Toronto, Ontario--(Newsfile Corp. - December 16, 2016) - DNI Metals Inc. (CSE: DNI) (FSE: DG7N) (OTC Pink: DMNKF) ("DNI" or the "Company").

DNI completes a Letter Of Intent "LOI", with Cougar Metals to develop DNI's Vohitsara, Madagascar Graphite Project.

Cougar owns 8 drill rigs, and has competence to complete a 3,000m drilling program, a 1,000m trenching program, a NI 43-101 resource study, and a NI 43-101 PEA for DNI's Vohitsara Project. As per the LOI, this work should be completed by June 30, 2017.

Summary of the $4.5 million potential.

1. Cougar pays DNI Cash payments of A$300,000
2. Cougar pays Cash payment of U$150,000 (approx. C$196,000) to previous owner of the Vohitsara project (last payment owed by DNI)
3. When Cougar completes the drilling/resource/PEA, (by June 30, 2017), Cougar will earn 49% of the Vohitsara project. DNI's board had set a budget of C$1.5 million to complete the drilling/resource/PEA.
4. If DNI opts out of its first right, Cougar can purchase DNI's remaining 51% for AUD$2.5 million.

The specific terms of the deal are below.

Cougar's directors believe the greatest strength of the Toamasina Saprolitic Graphite Project lies in its ability to deliver a high quality product with a low cost base into an existing market. With over a century of supply history, coarse flake graphite concentrates from the Toamasina area of Madagascar are well known in the global end-user market and the Toamasina project is ideally suited to capitalize on this existing 'brand awareness'.

It is expected that the Toamasina Saprolitic Graphite Project can be placed into production with modest capital costs and can cost effectively expand to meet the demand for its product.

Vohitsara Saprolitic Graphite Project

The Project is located in east central Madagascar, approximately 50 km south-southwest of the deep-water port city of Toamasina and approximately 50km North of Bass Metals' operating Loharano graphite mine.

Location Map of Madgascsar Saprolitic Graphite Project

To view an enhanced version of the Location Map of Madgascsar Saprolitic Graphite Project, please visit:
http://orders.newsfilecorp.com/files/1803/24136_a1481896076869_35.jpg

Mineralisation has been identified over a combined 3km strike length from visual examination of near surface samples (< 1m from surface). The mineralisation follows a distinct ridge in the area varying in elevation from 40m to 110m AMSL.

Access to the initial area of interest is by way of a 1.8km unsealed track leading from the main highway between the port city of Toamasina and the country's capital Antananarivo. The turn off is located 55km by road from the port city of Toamasina.

Toamasina is the largest port in the country and is considered the commercial capital of Madagascar. The city and port have been developed extensively since 2008 by major infrastructure investment on the part of Sherritt; who with its partners, have developed the U$8.0Billion Ambatovy HPAL lateritic nickel-cobalt mine 200km inland from Toamasina.

Mineralisation has been mapped along a 3km ridge within the project area. Small pits less than 2m in depth were dug to inspect for mineralisation, which is easily identified visually on account of the high % content of large flake graphite. This confirms the potential of the project to host a long-life / low-cost mining operation. Mineralisation most often occurs on topographic highs and generally within 1m of surface; significantly reducing costs associated with pre-stripping for mining.

The Toamasina Lateritic Graphite Project is particularly well located, with access being just 55km from the major port city of Toamasina via a sealed road. This proximity to a port and the infrastructure of a major city, will result in significantly lower construction and operating costs than would otherwise be the case.

Work to Date

Madagascar has supplied high quality graphite for the international market for over 100 years. In particular, the

Toamasina-Brickaville belt; in which the Vohitsara project is centrally located, is well known for the high purity and larger flake-size distribution of its graphite concentrates.

The Project area has been subjected to historical artisanal mining in the period between WW2 and 1960 (end of French colonial rule). Visual estimates from site inspection and anecdotal reports from indigenous personnel put this production at just under 100,000T of material.

A trenching and limited surface sampling and test pitting program was conducted on the Toamasina Project in 2015, with 4 trenches located within the identified corridor of mineralisation. Trenches were targeted from field observation in conjunction with man-portable ground EM and magnetics along cut lines (using GPS control).

Results are shown in Table 1 following:

Table 1: Sampling & assay data from the main trend at the Graphite Project:

Cannot view this image of Table 1: Sampling & assay data from the main trend at the Graphite Project? Please visit:
http://orders.newsfilecorp.com/files/1803/24136_a1481896077213_27.jpg

Flake Size distribution:

Initial screening testwork performed on selected grab and trench samples from the project area returned very encouraging results as shown in Table 2 below:

The graphitic carbon content is that of a simple concentration of graphite — prior to any secondary upgrading (re-grinding) of the graphite material.

Table 2: Summary of initial screening test work on Toamasina Project graphite flake

To view an enhanced version of Table 2: Summary of initial screening test work on Toamasina Project graphite flake, please visit:
http://orders.newsfilecorp.com/files/1803/24136_a1481896077369_87.jpg

Terms

A LOI has been executed between Cougar and DNI.
The key the terms of the LOI are:

- Payment of AUD $100,000 that was been received by DNI.
- Subject to the preparation of a Definitive Agreement
- Payment of AUD$200,000 by March 15, 2016 or within 10 days of Cougar raising AUD$500,000.
- Complete a drilling program, a resource study and a Preliminary Economic Assessment (PEA) in accordance with NI 43-101 by June 30, 2017
- Cougar to make payment on behalf of the vendor of USD 150,000 on June 12, 2017 unless Cougar has withdrawn from the agreement by April 12, 2017.
- Upon the conclusion of the PEA one of the four following scenarios will eventuate
  - A 50/50 Joint Venture shall be formed should DNI secure offtake agreements allowing the construction of a 10,000 tpa plant failing which
  - Cougar shall acquire 100% of the Project by payment of AUD 2.5M to the vendor failing which
  - The Vendor shall acquire Cougar's interest by payment to Cougar of AUD 2.5M or
  - Cougar shall retain a 49% interest in the project.

A formal agreement will be prepared to document the terms of the LOI.

Cougar Metals

The Company also operates a mineral drilling business in Brazil providing surface diamond, reverse circulation and RAB drilling services to the Brazilian mineral resource industry. The Company currently operates a fleet of 9 rigs.

In August 2016, Cougar executed a LOI to acquire an 85% interest in the Ceara Lithium Project, located in north-eastern Brazil.

The Project comprises 35 tenements (granted and applications) with an area of ~60,000Ha covering the historical lithium mining centre at Solonopole and an area encompassing the Cristal pegmatite swarm.

In addition, Cougar holds an option to acquire a 51% undivided interest in the Shoal Lake Gold East Project, located in the Shoal Lake region of Ontario, Canada; an area containing a number of past gold producers and significant exploration results. Work on the Project is suspended pending the Project vendor complying with arbitration orders.

In Australia, the Company holds the laterite nickel and cobalt mineral rights to the Pyke Hill prospect located 40km east of the Murrin Murrin Nickel operations in Western Australia. The prospect contains a Measured and Indicated Resources of 14.7mt @ 0.9% Ni and 0.06% Co. (March 2008).

Brian Howlett has resigned as interim CFO, to pursue other opportunities. Dan Weir will take the position as interim CFO, until a replacement has been found. DNI would like to thank Brian for all his support, and wish him well in his future endeavors.

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