DEMPSEY MINERALS LTD
ACN 149 349 646

ASX ANNOUNCEMENT

6th February 2018

DEMPSEY SIGNS OPTION TO ACQUIRE ARGENTINIAN LITHIUM PROJECTS

Highlights

- **Option to acquire 100% of Blue Sky Lithium Pty Ltd's interest in mining tenements located in the famed *Hombre Muerto* (HM) salar region of Argentina, or 100% of the issued capital in the company that owns those interests**
- **Hombre Muerto hosts FMC Corporation's Fenix and Galaxy Resources Limited's Sal de Vida Lithium operations - located in the *Lithium Triangle* of South America**
- **Highly productive basin with low impurities and shallow targets**
- **Targeting fast track production of lithium carbonate**

Background

Dempsey Minerals Limited (ASX:DMI) (**Dempsey** or **the Company**) is pleased to announce that it has signed an exclusive option agreement (**Option Agreement**) with Australian company Blue Sky Lithium Pty Ltd (**Blue Sky**) to acquire 100% (royalty free) of Blue Sky's interests in mining tenements located in the world class lithium bearing *Hombre Muerto* salt flat in the province of Catamarca, Argentina. Blue Sky, through its Managing Director and founder Mr. Juan Pablo Vargas de la Vega, has had a long association in the mining industry in Australia and Latin America and in particular within the lithium sector. Under the terms of the Agreement, if Dempsey exercises the Option it may at its sole and absolute election determine whether to complete the acquisition by way of an asset sale agreement (i.e. by acquiring Blue Sky's interests in those mining tenements) or by acquiring 100% of the issued capital of Blue Sky (**Acquisition**).

The mining tenements in which Blue Sky has an interest (together the **Project**) are located within the South American *Lithium Triangle* in the Hombre Muerto Basin, one of the most important and prolific salt flats in Argentina and indeed the world. The Project is situated adjacent to Galaxy Resources' *Sal de Vida* project (proposed production of 25ktpa LCE - GXY:ASX announcement, 22 August 2016) and FMC's Fenix lithium operations (which has been in operation since 1997). The basin is known to have the lowest impurity levels of any producing Salar in Argentina and has been in production for over 20 years. The geology of the basin is well understood with lithium grades ranging from 680 to 780ppm and reserve life's estimated to be greater than 50 years for FMC (GXY NI 43-101, March, 2010) and 40 years for Galaxy (GXY: ASX announcement, 22 August 2016) at current and forecast production rates.

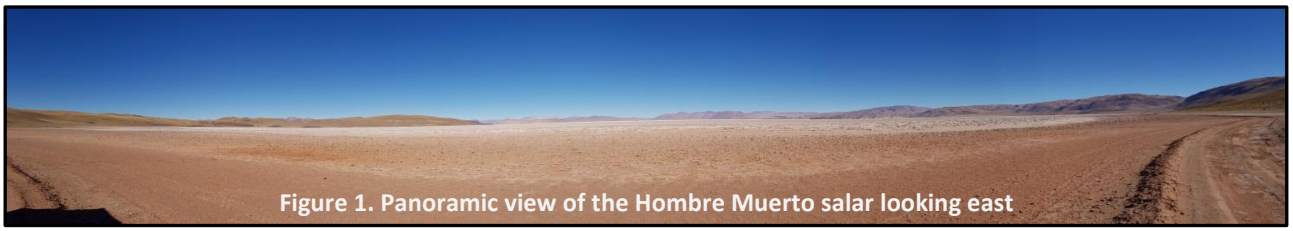


Figure 1. Panoramic view of the Hombre Muerto salar looking east

Drill hole data from neighbouring FMC ground indicates that lithium brine horizons commence from just c.10 metres depth whilst on Galaxy's ground lithium bearing brines were found almost from surface with similar porosity ranges to FMC's.

Two areas are targeted within the Project; *Candelas* in the south east and *Catalina* in the western margin of the basin. Both areas have direct access to the salar including areas shallowly covered by recent alluvium.

At *Candelas* the target is an approximate 12km long deltaic channel which is thought to be the main access channel for lithium charged waters from source rocks to the south of the basin. The Candelas area adjoins Galaxy's Sal de Vida project to the south (see presentation for detail).

The *Catalina* area hosts ~2.4km^2 of salar in the western nucleus of the basin. Both targets have areas of thin alluvial cover with hydrogeological assessment indicating the potential for lithium charged brines existing below this cover.

Figure 2. Blue Sky's Project within the Lithium triangle

Should the Company exercise its option and proceed with the Acquisition in accordance with the Option Agreement the Company intends to conduct surface testwork, geophysics and secure government permits to drill the tenements with the aim to estimate a maiden JORC resource as soon as practicable. In addition to the potential for near term production from the Project, laboratory scale testing the potential to directly produce battery grade lithium carbonate will be prioritised with results assisting in the design and commissioning of a larger pilot plant. The Company will also utilise its in country experience to further expand its portfolio in the lithium brine sector.

The proximity to Galaxy and FMC on the salar serves to reduce the exploration risk for the tenements. Any exploration success will not only increase the value of the Project but will have the ability to improve the potential economics to develop a lithium carbonate plant through increased scale and use of constructed production facilities.

Further information with respect to the Project and to Blue Sky is available in the attached presentation which is also available on the Company's website. Information contained in this release concerning FMC's Fenix project was sourced from FMC's website at www.fmc.com unless otherwise stated. Information contained in this release concerning Galaxy's Sal de Vida Lithium project was sourced from Galaxy's website at www.galaxylithium.com unless otherwise stated.

Commenting on the transaction, Dempsey Minerals Non-Executive Chairman, Mr Nathan McMahon said, *"This transaction is a potential game changer for our business, providing Dempsey with a landholding in arguably the most productive lithium brine basin in Argentina at a time when the lithium market is experiencing unprecedented significant growth.*

"The Hombre Muerto projects have extensive exploration potential, located adjacent to Galaxy Resources Limited's Sal de Vida project and FMC Lithium Corp's Fenix operations.

Should we proceed with the transaction, our aim will be to fast track these projects to production. Initially, by achieving a maiden JORC resource within the first 18 months, underpinned by a low capital cost drilling

program. At the same time, we will be studying a number of technologies with which to incorporate into the pilot plant design.

We will then seek to deliver a DFS to underpin industrial production of lithium carbonate within 36 months.

The appointment of Chilean - Australian mineral industry professionals Juan Pablo Vargas de la Vega and Raymond Liu will add significant in-country experience to the Board.

I look forward to updating investors in terms of this transaction and further lithium opportunities as they arise in Argentina."

Transaction Overview

The ASX has advised the Company that Shareholder approval for the transactions contemplated by the Option Agreement will be required for the purposes of ASX Listing Rule 11.1.2 as ASX considers that the Acquisition, if completed, will constitute a change to the scale of the Company's activities. A Shareholder meeting is expected to be held by the end of March 2018 for the purpose of seeking such approval. A notice of meeting convening that meeting will be distributed to Shareholders in due course.

The Company will also seek Shareholder approval for the issue of Shares and Options as consideration under the Option Agreement in accordance with the requirements of the ASX Listing Rules, as well as Shareholder approval for sufficient placement capacity to enable the Company to issue securities to meet the Fundraising Condition (see the paragraph numbered 5 below).

The principal terms of the Option Agreement are as follows:

1. The initial option period is 45 days from the date of the Option Agreement (**Initial Option Period**) but may be extended at Dempsey's election by a further two (2) months (**Further Option Period**).
2. During the Initial Option Period and the Further Option Period, Blue Sky will for the purposes of Dempsey's due diligence investigations (amongst other things):
    (a) grant to Dempsey the right to carry out exploration activities on the Project and all activities ancillary thereto at such times and in such manner as it determines in its sole and absolute discretion;
    (b) permit Dempsey to enter upon the Project by its employees, agents and contractors and bring on to the Project plant, equipment and machinery for the purpose of conducting exploration on the Project; and
    (c) permit Dempsey to undertake non-invasive exploration activities including conducting soil samples, and geophysics studies and any other act or thing in connection with such non-invasive exploration to test for the presence of minerals on the Project.
3. The consideration payable under the Option Agreement is as follows:
    (a) upon the exercise of the option under the Option Agreement (**Option**), an option fee will be payable to Blue Sky of 3,000,000 fully paid ordinary shares in the capital of Dempsey (**Shares**) and 3,000,000 options each to subscribe for one (1) Share at an exercise price of $0.14 on or before 31 December 2019 (**Options**);
    (b) upon completion of the acquisition of Blue Sky or the Project (as determined by Dempsey) (**Completion**) the issue to Blue Sky or Blue Sky's shareholders (as applicable) of 17,000,000 Shares and 12,000,000 Options;
    (c) upon the delineation by or on behalf of Dempsey of a JORC resource of not less than 80kt lithium carbonate equivalent within the area of the mining properties in which Blue Sky has an interest as at Completion, the issue of 15,000,000 Shares to Blue Sky or Blue Sky's shareholders (as applicable); and
    (d) upon the commencement of commercial production from a pilot plant by on or behalf of Dempsey, the issue of 10,000,000 Shares to Blue Sky or Blue Sky's shareholders (as applicable).

4. Blue Sky has agreed that for the duration of the Initial Option Period and the Further Option Period (if any) Blue Sky will exclusively deal with Dempsey or its nominee in respect of the sale, disposal of or other dealing with its interests in the Project and the Blue Sky shares.
5. Completion will be conditional upon the satisfaction of a number of conditions precedent including but not limited to the exercise by Dempsey of the Option, Dempsey having completed a capital raising of at least $2,000,000 by the issue of Shares at not less than $0.075 per Share (**Financing Condition**), Dempsey being satisfied in its sole and absolute discretion with the results of its technical due diligence and the receipt of all necessary shareholder and other approvals.
6. A finder's facilitation fee of 5,000,000 Shares and 10,000,000 Options will also be payable on Completion.
7. Upon the request of Dempsey the parties will negotiate in good faith a more formal agreement to replace the Option Agreement which will be consistent with the terms and conditions of the Option Agreement (**Formal Agreement**) and will also include further terms and conditions usually found in agreements of its type. Until such time as a Formal Agreement is negotiated and executed, or if no such Formal Agreement is able to be agreed by the parties, then the Option Agreement will continue to be legally binding upon the parties.
8. The Option Agreement contains other terms and conditions ordinarily found in an agreement of its type.

Overall the consideration for the Acquisition is heavily biased towards achieving significant milestones.

Capital Raising

As part of the Financing Condition and prior to completion of the Acquisition under the Option Agreement, the Company will secure commitments to raise $616,000 by the issue of 7,700,000 Shares at $0.08 per Share to enable the Company to meet the administrative costs of the Acquisition including due diligence costs, advisers' fees, the costs of seeking shareholder approval for the Acquisition and to allow sufficient working capital within the Company. After Shareholder approval has been obtained, Dempsey will complete a further capital raising of at least $1,384,000 by the issue of 17,300,000 Shares at $0.08 per Share, in order to satisfy the Fundraising Condition precedent to completion of the Acquisition under the Option Agreement.

Of the 7,700,000 Shares to be issued under the initial placement, 4,305,000 Shares will be issued pursuant to the Company's remaining ASX Listing Rule 7.1A capacity and 3,395,000 Shares will be issued pursuant to the Company's remaining ASX Listing Rule 7.1 capacity.

Upon completing the Acquisition the board of the Company shall include two new Directors and maintain the current Chairman. The two representatives of Blue Sky will be Mr. Juan Pablo Vargas de la Vega (who will be appointed as the Managing Director of the Company) and Mr. Raymond Liu (who will be appointed as a Non-Executive Director).

Mr. Vargas de la Vega (or "JP"), is a Chilean/Australian mineral industry professional with 15 years broad experience in ASX mining companies, stockbroking and private equity firms and holds a Masters in Mineral Economics from Curtin University, Perth. JP has a firm understanding of the global lithium market stemming from his prior role as a specialist lithium analyst in Australia and has successfully negotiated agreements with one of the largest world lithium producers SQM (NYSE:SQM). Mr. Vargas de la Vega's experience has also seen him operate a private copper business as in Chile. He has also worked for BHP, Rio Tinto and Codelco.

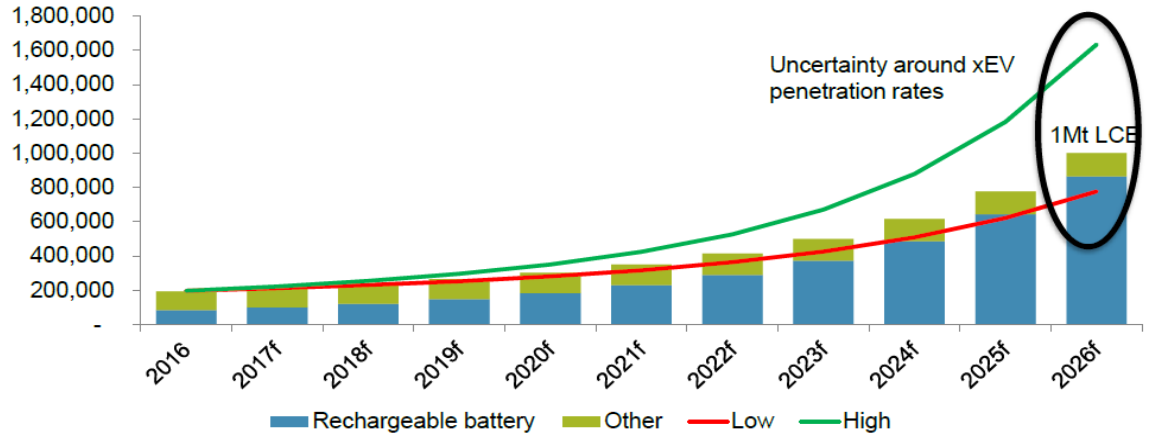
Mr Liu is a qualified mining engineer with a commercial background and received his degree in Mining Engineering from University of Western Australia. Mr. Liu also holds a Master of Mineral Economics from Curtin University and a Western Australia Unrestricted Quarry Manager's licence. Raymond is the founding managing partner in Havelock Mining Investment, a Hong Kong investment company and has been involved in the recapitalisation, restructuring and acquisition of assets for numerous ASX listed companies and is currently a director of Okapi Resources Ltd.

Lithium Markets

The lithium market is currently experiencing unprecedented significant growth, especially in the last two years. The short-term supply has struggled to meet demand resulting in a threefold increase in the spot price for lithium carbonate from 2015 to 2017 a trend which could potentially continue as supply is estimated to continue to lag demand.

Lithium demand has almost doubled from 2009 to 2017 and is estimated to increase slightly more than four times (to 850ktpa-1Mt) by 2025 (Figure 3). The main driver for lithium demand comes from batteries needed to power electric vehicles (EV). The Company's board of directors expects there is likely to be a strong upward trend in the production of EV's, led by the Chinese Government and new legislation phasing out the internal combustion engines for small vehicles. Further demand is also expected due to similar legislation in Europe which could be effective from 2025 onwards. As a result, EVs are expected to eventually replace internal combustion engine cars. The phase out process might take 20-30 years to occur at a global level.

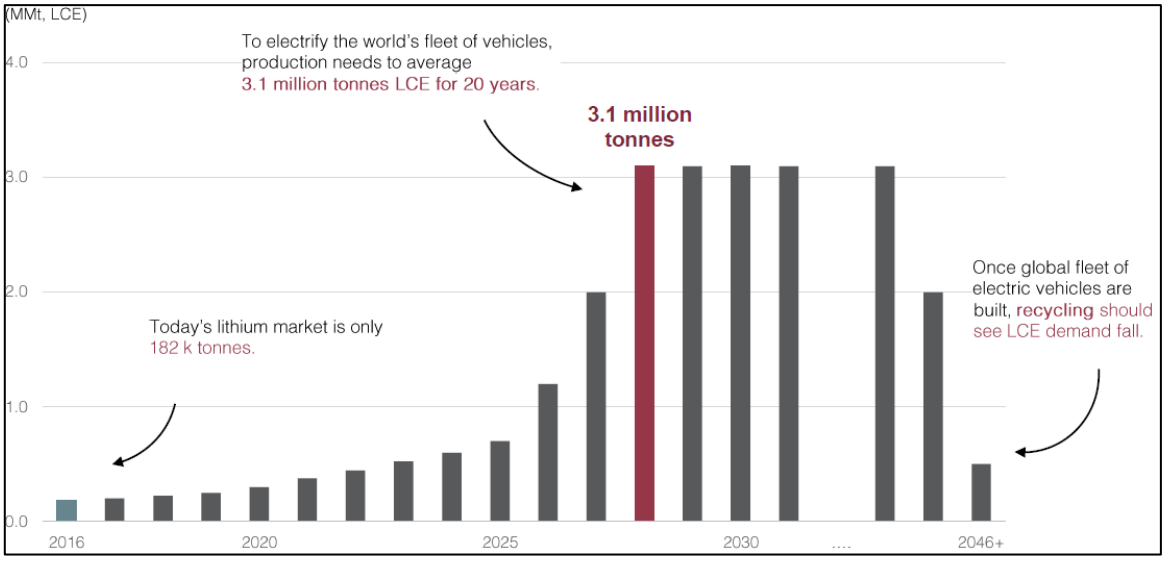
Figure 3: Global Lithium Demand Forecast 2016-2026



Source: Roskill

Future supply looks constrained with not enough supply reaching the market at the right time. Assuming the electric vehicle will be embraced 100% by 2030 (Figure 4), the lithium demand would be 3.1Mt LCE per year for 20 years, this **being more than 10 times current supply.** If this change in technology is applied, the market pressure to meet demand could see unprecedented spikes in lithium carbonate prices.

Figure 4: Lithium Demand Chart to Produce 100% of all vehicle fleet being EVs



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