

ASX ANNOUNCEMENT

4th September 2015

DEMPSEY SIGNS OPTION TO ACQUIRE OIL COMPANY PETROZ LIMITED

Dempsey Minerals Limited ("Dempsey" or "the Company") (ASX Code: DMI) is pleased to announce that it has entered into a conditional exclusive Option and Sale & Purchase Agreement ("Agreement") under which it has an option to acquire 100% of the issued capital of Petroz Limited ("Petroz") ("Option"). Petroz is an unlisted public Australian oil company, which has secured a 75% interest in a proven, newly awarded, onshore oil licence located in Western Turkey. If exercised, the consideration for the acquisition of Petroz ("Acquisition") is 4,000,000 fully paid ordinary shares in the capital of Dempsey ("Dempsey Shares") and 16,000,000 performance shares that each convert into one (1) Dempsey Share based on the achievement of certain milestones.

Transaction Highlights

- Alasehir Exploration Licence ("Licence") located ~150km east of Aegean port city of Izmir in Turkey
- Under Turkish law, oil can be produced and sold under an exploration licence
- Minimum exploration risk with existing proven undeveloped oil discoveries
- Aliaga oil terminal and two refineries nearby at Izmir will take Alasehir crude
- Breakeven cost base for Alasehir crude estimated by the Operator Petrako to be < US\$20 per barrel
- Robust production margins even at current low oil price of US\$49 at the Izmir refinery gate.
- Premium price for Alasehir crude. Brent equivalent plus international shipping and transport costs to the refinery gate
- Oil previously encountered and recovered in several wells in the Licence, however due to issues with technical management and funding, commercial oil development was not attained. Historical production test rates of 140 barrels/day were attained with scope to increase to 300+ barrels/day per well
- Turkish Government revoked the previous licence, re-gazetted the acreage for competitive tender and recently awarded a new 5-year licence to Petroz (75%) and its local partner Petrako Limited ("Petrako") (25%)
- Highly qualified and experienced Petroz development and management team in place
- Option to acquire Petroz subject to due diligence and standard conditions precedent
- Consideration payable upon exercise of the Option is 4 million Dempsey Shares and 16 million performance shares which will convert into Dempsey Shares upon the satisfaction of certain performance milestones
- Dempsey will make loan funds of \$700,000 available from its existing working capital to Petroz to secure the Licence performance bonds
- Current Dempsey cash position \$875,000
- Dempsey aims to initially raise \$590,000 via an entitlement offer to shareholders, with the funds raised to be used for administrative costs incurred in respect of the Acquisition including due diligence costs, advisers' fees, the costs of seeking shareholder approval for the Acquisition and the costs of achieving re-compliance with the admission requirements under the ASX Listing Rules
- As part of the Acquisition, two new directors elect, Dr Jaap Poll and Mr Bevan Tarratt, will join the Dempsey Board on the completion of the transaction

Background

Petroz is an un-listed public Australian company which, in association with its local Turkish partner Petrako, has recently been awarded an oil licence in Western Turkey. Petroz, through its Executive Chairman Dr Jaap Poll, has had a long association with Petrako and the Turkish oil and gas industry.

Dr Poll has compiled a substantial career in the industry with Royal Dutch/Shell, Woodside, Oil Search and a number of smaller companies and more recently, with Otto Energy, which also listed with Turkish acreage just over 12 years ago. Dr Poll has received several “Best Paper” awards and was awarded Distinguished Life Membership of PESA. He was awarded the Australian “Legend” Status by “Excellence in Energy” in 2008 and is an Accredited Member of AAPG and an Accredited Arbitrator and Mediator (Uni. of Adelaide).

Mr Tarratt has an extensive background in capital markets, accounting and corporate advisory with a specific focus on small cap Australian equities. Mr Tarratt was previously a client advisor at Patersons Securities and partner of a venture capital firm. He has been involved in the recapitalisation, restructuring and acquisition of assets for numerous ASX listed companies and is currently a director of Stonehenge Metals Ltd and is a former director and chairman of other ASX listed companies.

The Licence is located within the Alasehir Basin, an elongate Tertiary graben extending for ~100km. The basin shows many similarities with the prolific oil producing Tertiary basins of S.E Asia and the giant oil bearing African rift valleys. Clastic reservoir sediments and rich source rocks reach thicknesses of over 3,000m with a high geothermal gradient ideal for early oil generation and entrapment.

Exploration on the Licence area has previously occurred in two phases. Four wells were drilled and 2D seismic work conducted from 1998-2001 by the Turkish National Oil Company. All four wells recorded good oil shows, including one oil blowout, which was capped.

From 2004 to 2013 a further 2 wells were drilled by Merty and a British farminee. Petrako farmed down with a carry through seismic and drilling. Of these 2 new wells, Sarikiz-2 (“S-2”), flowed oil to surface and production testing produced over 1,000 barrels of good quality oil in a flow test over 7 days. Oil was found over twelve levels with a combined net reservoir of ~75m. A second well, Sarikiz-3 (“S-3”) produced gassy water with oil and condensate, but the well was plugged and abandoned by the operator, which then ran out of funds and Government support and the licence was terminated.



Location map, Alasehir basin and wells, Western Turkey

Recent detailed geological, geophysical and petrophysical reviews by Petroz identified ~27m of oil pay in S-2 and ~24m of overlooked potential oil pay in S-3. New mapping of the historic 2D seismic also revealed the key structures hosting the oil bearing horizons and delineated two distinct structures, the Alasehir and Sarikiz fields. A recent Geothermal well drilled ~500m from the Alasehir-1 well within mapped closure, produced a significant oil flow into the mud-pit (see photo below), giving further encouragement for the discovery of commercial oil in the Alasehir structure as well as the proven Sarikiz field.

In addition to the potential for near term production from the first well drilled by the Petroz/Petrako Joint Venture, detailed geological interpretation work conducted by Petroz has identified further exploration leads which will be better understood in time through additional 3D seismic data acquisition and interpretation work. The first well drilled by Petroz will be next to the discovery well, which for technical reasons can't be re-entered. This proximity to the discovery well, almost completely eliminates exploration risk for the new well. Any additional exploration success will not only increase the value of the Licence but will have the ability to improve the economics of the Licence through increased scale and use of production facilities to be put in place for the Alasehir and Sarikiz fields.

Under Turkish law, oil can be produced and sold under an exploration licence.

Transaction Overview

The ASX has advised the Company that in the event of the exercise of the Option, ASX Listing Rules 11.1.2 and 11.1.3 will apply to the Acquisition. Hence Dempsey shareholder approval, re-compliance with Chapters 1 and 2 of the ASX Listing Rules and ASX approval for readmission of Dempsey to the official list of ASX will be required as a condition precedent to completion of the Acquisition.

The principal terms of the conditional agreement are as follows:

- (a) Dempsey has the option to acquire all the issued capital of Petroz, being 33 million fully paid ordinary shares. Completion of the Acquisition is subject to Dempsey's satisfactory completion of due diligence, all parties obtaining all required regulatory and shareholder approvals and the satisfaction of other conditions precedent including the finalisation of a joint operating agreement with Petrako.
- (b) The Option period is 6 months or such other date agreed between Dempsey and Petroz.
- (c) On the exercise of the Option (subject to certain conditions precedent including DMI shareholder and ASX approvals) Dempsey will issue Petroz shareholders a total of 4 million Dempsey Shares on completion of Dempsey's re-admission to the official list of the ASX, a recapitalisation raising sufficient to enable Dempsey Shares to be readmitted to quotation on the ASX after completion of the Acquisition and the recommencement of trade in Dempsey Shares and 16 million Dempsey performance shares which will each convert to fully paid ordinary shares in Dempsey subject to the following hurdles:
 - (i) 6 million Class A performance shares which will convert into 6 million Dempsey Shares upon Dempsey's receipt of an independent expert's report confirming that the Sarikiz Field within the Licence has proven and probable (2P) oil resources of not less than 1 million barrels of oil ("mmbo") by 31 December 2015;
 - (ii) 6 million Class B performance shares which will convert to 6 million Dempsey Shares upon the General Directorate registering a discovery under the Licence in accordance with Turkish Petroleum Law Implementing Regulation on or before 31 December 2017; and
 - (iii) 4 million Class C performance shares which will convert to 4 million Dempsey Shares upon receipt of an independent expert's report confirming that drilling results and mapping of a 3D seismic survey data have identified not less than 25

mmbo of Prospective Resources (P50 Oil in Place) within the Licence and Dempsey reaching a market capitalisation of \$10,000,000 for 5 consecutive trading days on or before 30 June 2018.

If any of the Performance Milestones set out in item (c) above are not achieved by the relevant Milestone determination date, every 1 million of the corresponding class of Performance Shares will automatically convert into one (1) Dempsey Share.

The Parties have entered into a loan agreement in consideration for the grant of the Option whereby Dempsey will loan Petroz an amount of \$700,000 for the purposes of paying the required bonds to secure the Licence and to pay the costs of an independent expert's report on the Licence and associated costs. This loan will be unsecured and will bear no interest and will be treated as an intercompany loan by Dempsey upon completion of the Acquisition. If Dempsey does not exercise the Option, or if the Acquisition is not completed, the loan must be repaid in full within one (1) month of the relevant circumstance. Dempsey may allow for the loan to be repaid by way of the issue of a corresponding number of fully paid ordinary shares in the capital of Petroz, to be calculated at a price of \$0.05 per Petroz share. The loan will be paid out of the Company's existing working capital.

A finder's fee of 4 million Dempsey Shares will also be issued on completion of the Acquisition.

Capital Raising

The Company has the requisite funds to secure the asset. It is intended that a capital raising will be undertaken by way of an entitlement offer 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 the costs of achieving re-compliance with the admission requirements under the ASX Listing Rules and to allow sufficient working capital within the Company.

Accordingly, the Company proposes to make an entitlement offer to existing Dempsey shareholders of up to 7,375,000 Dempsey Shares on the basis of one (1) new Dempsey Share for every four (4) Dempsey Shares held on the record date together with one (1) free attaching option (exercisable at \$0.14 with a 3 year exercise term) for every one (1) new Dempsey Shares subscribed for at a price of \$0.07 per Dempsey Share.

In addition, as part of the entitlement offer the Company proposes to offer options to those Dempsey shareholders listed on the Company's register on the record date, also on a one (1) for four (4) basis at a price of \$0.01 each (exercisable at \$0.14 strike with a 3 year exercise term). This aims to raise a further \$73,750.

If the entitlement is fully taken up by the Dempsey shareholders, the issues will raise a total of \$590,000. The funds raised will be used to fund the administrative costs of the Acquisition including the costs of assessing the business, operations and prospectus of Petroz for due diligence purposes, advisers' fees, for working capital for the existing business operations of the Company and, if the Option is exercised, to cover the costs of seeking shareholder approval for the Acquisition and the costs of achieving re-compliance with the admission requirements under the ASX Listing Rules. If the Option is not exercised this amount will be used for administrative costs already then incurred in respect of the Acquisition and for general working capital for the Company and its existing business operations. The capital structure of Dempsey on a pro forma basis if the Option is exercised and after the completion of the entitlement offer is as set out in Schedule 1 below.

Dempsey shareholder approval will also be sought to authorise the capital raising, and any other requirements of the ASX and the Listing Rules.

Further details of the assets or business proposed to be acquired will be provided following completion of the due diligence including information about the likely effect of the transaction on the entity's total assets, total equity interests, annual revenue and annual expenditure.

Why oil? Why Turkey?

This investment in oil through the acquisition of Petroz is an opportunistic move by Dempsey and based on the fact that any oil production from the Alasehir Licence has the potential to be highly profitable even in the current depressed oil price environment due to its projected low break-even sub US\$20/barrel cost base. Furthermore, Dempsey shares the widely held belief that the oil price will improve when the current production glut has diminished. The ability to add further exploration upside in time should further improve the economics of the project and coincide with what Dempsey believes will be a return to a stronger oil price environment.

Companies like Shell have been investing in Turkey since 1923. Turkey has recently adopted a new Petroleum Law with attractive terms for the investor including a capping of oil royalties at 12.5% and a corporate tax rate of 20%. It also has a web of established refineries along its coastline. These refineries have the obligation to accept any crude produced and delivered to its gate at equivalent world oil prices plus overseas transport costs to that refinery gate. This provides an all-up oil price above world parity (Brent).

The Board of Dempsey is very excited by the proposed transaction and looks forward to seeking to increase shareholder value to develop a significant energy company in the future.

Schedule 1

Securities	Dempsey Shares	Dempsey Options	Performance Shares (Class A, B & C)
Existing issued securities (*)	29,500,001	100,000 (**)	-
Finder's fee	4,000,000	-	-
Consideration securities	4,000,000	-	16,000,000
Entitlement Issue – part I	7,375,000	7,375,000 (***)	-
Entitlement Issue – part II	-	7,375,000 (***)	-
TOTAL SECURITIES	44,875,001	14,850,000	16,000,000

Performance Shares	
Class A issued on the terms set out above	6,000,000
Class B issued on the terms set out above	6,000,000
Class C issued on the terms set out above	4,000,000

(*) This schedule does not include any issues of securities under the potential prospectus offer for the recapitalisation raising described above.

(**) options exercisable at \$0.054 on or before 31 July 2016.

(***) options exercisable at \$0.14 with a 3 year exercise term

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Oil in mud pit of a recent geothermal well, Alasehir licence area

Person compiling information about hydrocarbons

The petroleum information in this report is based on data compiled by Dr Jaap Poll, a petroleum industry executive with a PhD in Structural Geology and 40yrs+ experience in the Australian and International oil and gas exploration and production industry. Dr Poll, a Distinguished Life Member of the Petroleum Exploration Society of Australia Ltd ("PESA") and a Certified Member of the American Association of Petroleum Geologists ("AAPG"), has consented to the inclusion of such information in this report in the form and context in which it appears. Dr Poll is the Executive Chairman of Petroz Ltd.