

PROSPECT ANNOUNCES SIGNIFICANT VALUE UPGRADE OF ARCADIA LITHIUM PROJECT FOLLOWING UPDATED PRE-FEASIBILITY STUDY

POSITIVE IMPROVEMENTS IN KEY PROJECT PARAMETERS FURTHER ENHANCES THE ECONOMICS OF THE PROJECT CONFIRMING ARCADIA AS A SIGNIFICANT FUTURE SUPPLIER OF LITHIUM TO THE GLOBAL MARKET

UPDATED PFS HIGHLIGHTS:

- **Increased Ore Reserve of 26.9Mt @ 1.31% Li₂O and 128 ppm Ta₂O₅ Maiden (previously 15.8 Mt @ 1.34% Li₂O and 127 ppm Ta₂O₅). The Ore Reserves support a +20 year mine life.**
- **Improved ratio of higher value Spodumene to Petalite minerals following delivery of X-ray Diffraction (XRD) sampling programme results.**
- **Product pricing improvements based on pricing formulae reflecting the long-term Offtake Agreement with Sinomine.**

FINANCIAL HIGHLIGHTS OF UPDATED PFS MINE PLAN:

- **NPV¹ (10% Discount Rate, pre Tax) of USD340 Million, IRR¹ of 77% and payback of 2 years**
- **LoM Revenue USD2.6 Billion at a Cash Operating Cost² of USD287 per tonne concentrate**
- **Capital Expenditure remains at USD52.5 Million**

1 NPV₁₀ and IRR Calculated after State Royalty (2%), a State lithium minerals tax (5%) and Minerals Marketing Corporation Zimbabwe commission (0.875 %) on gross production, pre tax

2 Cash Operating Costs include all costs associated with producing and shipping Li₂O concentrates sold on a FOB Port of Beira Incoterms® 2010 basis and are net of byproduct credits from Ta₂O₅ sales

ARCADIA UPDATED LITHIUM PFS STUDY

Prospect Resources Ltd (ASX: PSC) (the "Company") is pleased to announce that it has revised its Pre-Feasibility Study ("PFS") over the Arcadia Lithium Project in Zimbabwe. Since the PFS was announced in July 2017, the Company has:

- Increased the Mineral Resource to 43.2 Mt @ 1.41% Li₂O and 119 ppm Ta₂O₅ (1% Li₂O cut-off), (34.9 Mt @ 1.42% Li₂O and 125 ppm Ta₂O₅ (1% Li₂O cut-off) in the PFS)
- Completed an XRD program on 3,162 lithium ore samples to gain a greater understanding of the lithium mineralogy resulting in an increased in the ratio of higher value Spodumene to Petalite minerals within the orebody
- Increased the Ore Reserve to 26.9 Mt @ 1.31% Li₂O and 128 ppm Ta₂O₅, (15.8 Mt @ 1.34% Li₂O and 125 ppm Ta₂O₅ in the PFS).
- Entered into a conditional, long-term (7 year) Offtake Agreement with Sinomine with a Spodumene and Petalite concentrate formulae based on the price of lithium carbonate imported into China and concentrate prices sold on an FOB Port of Beira basis.
- Increased our understanding of the recently defined Basal and Lower Pegmatites in the southwest of the planned pit area.

This updated data has been incorporated into the project's financial model resulting in a pretax NPV₁₀ of USD 340 Million and an IRR of 77%. The PFS financial model estimates a net revenue of USD 2.6 Billion over a 22-year mine life. Pricing has been increased compared to the PFS reflecting the pricing formulae in the Offtake Agreement, which, consistent with other industry contracts is linked to the lithium carbonate price. The revenue was further improved due to the higher ratio of Spodumene to Petalite mineralisation identified by the XRD work on the orebody resulting in more lithium reporting to the higher value Spodumene concentrate.

Unit operating costs net of tantalum credits average USD 287/t of lithium concentrate. The reduced unit cost compared to the PFS mainly reflects reduced transport costs with the concentrates being sold on a FOB Port of Beira rather than a CFR China port basis.

The estimated Capital Expenditure (including initial working capital) remains the same as the PFS at USD52.5 Million following ongoing discussions with equipment and infrastructure suppliers.

A summary of the key inputs and results are highlighted in the table below.

Table 1 Summary of Key Technical and Financial Results

Study Criteria and Financial Outputs	Basis and Variables
Mineral Resource at 1% Li ₂ O Cutoff	43.2 Mt @ 1.41% Li ₂ O
Ore Reserve	26.9 Mt @ 1.31% Li ₂ O & 128 ppm Ta ₂ O ₅
Plant Throughput	1 200 000 tpa
Life of Mine (LoM)	+20 years
LoM Waste Strip Ratio	3.14 t waste per t ore
Spodumene Production (6% Li ₂ O) avg. LoM	96 000 tpa
Petalite Production (4.1% Li ₂ O) avg. LoM	127 000 tpa
Total Lithium Carbonate Equivalent (LCE) avg. LoM	27 000 tpa
Tantalite contained in concentrate avg. LoM	98 000 lb. pa
Metallurgical Recovery DMS, Spirals and Flotation	67% Li ₂ O
Metallurgical Recovery Spirals and Tables	30% Ta ₂ O ₅
Spodumene 6% Li ₂ O Long Term Price FOB ¹	USD 675 per dry t
Petalite 4.1% Li ₂ O avg. Long Term Price FOB	USD 413 per dry t
CAPEX (including initial working capital) ±25 %	USD 52.5 M
Payback Period (from commissioning)	~2 years
Revenue LoM	USD 2,599 M
OPEX LoM	USD 1,561 M
Net Cash Flow	USD 1,038 M
Cash Cost avg. LoM ²	USD 287 per t concentrate
NPV 10% discount	USD 340 M
IRR ³	77%

Below are details of the key variances between PFS and the Updated PFS Study.

¹ FOB Incoterms® 2010 for delivery to Port of Beira

² Cash Costs include all production, corporate, administration, marketing and royalty costs and are net of by-product credits from Ta₂O₅ sales

³ NPV₁₀ and IRR calculated after state royalty (7%) and MMCZ commissions (0.875%) on gross production but before tax on profits

MINERAL RESOURCES

The Mineral Resource estimate that formed the basis to the PFS was announced on 14 March 2017. Further drilling after the PFS increased the Mineral Resource estimate (at a 1% Li₂O cut-off) to 43.2 Mt or a 24% increase in the resource. The two Mineral Resource estimates are tabled below for comparison.

Table 1: Arcadia Mineral Resource estimate summary (>1% Li₂O) 14 March 2017

High Grade Zone - 1% Li ₂ O Cut-off					
Category	Tonnes	Li ₂ O%	Ta ₂ O ₅ ppm	Li ₂ O Tonnes	Ta ₂ O ₅ lbs
Measured	5 700 000	1.48%	134	83 800	1 700 000
Indicated	15 100 000	1.38%	118	208 000	3 900 000
Inferred	14 100 000	1.44%	133	203 000	4 100 000
TOTAL	34 900 000	1.42%	127	494 800	9 700 000

Table 2: Arcadia Mineral Resource estimate summary (>1% Li₂O) 25 October 2017

High Grade Zone - 1% Li ₂ O Cut-off					
Category	Tonnes	Li ₂ O%	Ta ₂ O ₅ ppm	Li ₂ O Tonnes	Ta ₂ O ₅ lbs
Measured	10 200 000	1.45%	132	148 100	3 000 000
Indicated	27 200 000	1.39%	119	378 400	7 100 000
Inferred	5 800 000	1.45%	97	84 000	1 200 000
TOTAL	43 200 000	1.41%	119	610 500	11 300 000

As part of the Mineral Resource estimate programme, 3 162 samples were taken and subject to XRD analysis to determine the lithium mineralogy of the orebodies. At the time of the PFS, limited results were available from assay program. Based on this limited wide spread data, the weighted average ratio of Spodumene to Petalite within the confines of the open pit was estimated to be about 40:60.

With all the XRD data loaded into the geological block model in the 25 October 2017 Mineral Resource estimate, the weighted average ratio of Spodumene to Petalite within the confines of the new open pit was estimated to be 47:53.

This materially impacts the ratio between of lithium concentrate products produced, with more of the higher value Spodumene concentrate being produced.

Table 3: Average LoM Annual Lithium Concentrate Production PFS vs Updated PFS

Lithium Product (t)	June 2017 PFS	Updated PFS
Spodumene (6.0% Li ₂ O)	75 000	96 000
Petalite (4.1% Li ₂ O)	155 000	127 000
Total Concentrate	230 000	223 000
Lithium Carbonate Equivalent	26 000	27 000

ORE RESERVES

The increase in the Mineral Resource estimate was a key factor in the increase in the Ore Reserves announced on 6 December 2017 and formed the basis of the Updated PFS. Other positive factors which impacted pit optimisation and design were:

- Reduced transport cost with products sold on an FOB basis
- Increase in the Spodumene concentrate price based on the formula within the seven-year Offtake agreement

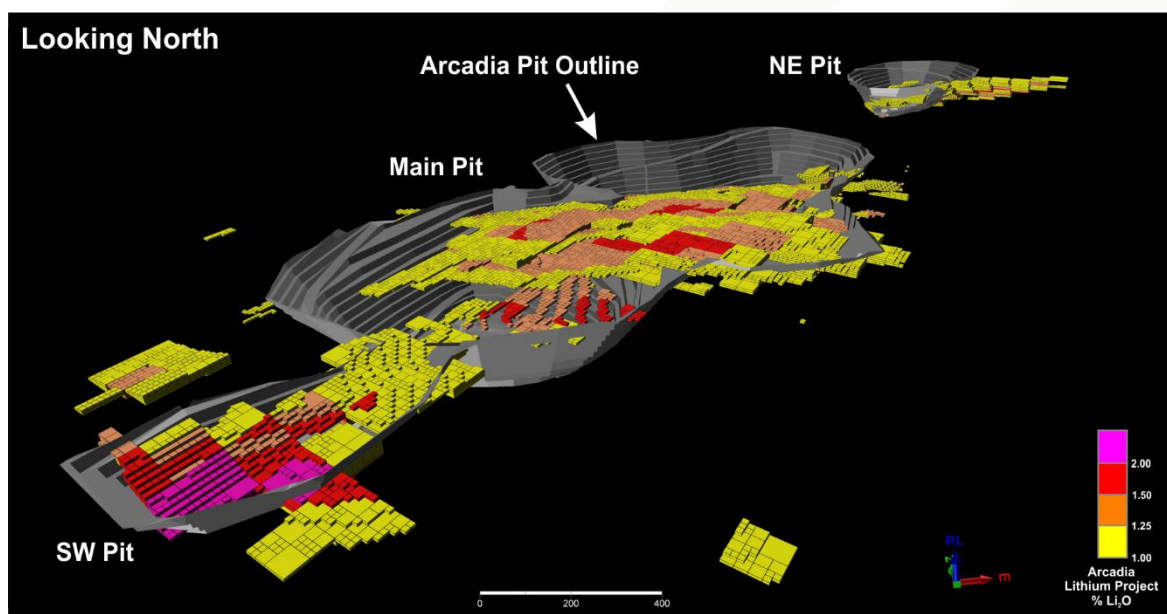
All other inputs used in the PFS for the optimisation process remained the same. The optimisation and subsequent pit design increase the Ore Reserve from 15.8 Mt to 26.9 Mt.

Table 4: Arcadia Lithium Deposit Ore Reserve Estimate – 03 July 2017

Category	Tonnes (Mt)	Li ₂ O (%)	Ta ₂ O ₅ (ppm)	Li ₂ O (t)	Ta ₂ O ₅ (Mlbs)	Fe ₂ O ₃ (%)
Proven	0.0	0.00	0	0	0.0	0.00
Probable	15.8	1.34	125	212 000	4.3	1.02
TOTAL	15.8	1.34	125	212 000	4.3	1.02

Table 5: Arcadia Lithium Deposit Ore Reserve Estimate – 06 December 2017

Category	Tonnes (Mt)	Li ₂ O (%)	Ta ₂ O ₅ (ppm)	Li ₂ O (t)	Ta ₂ O ₅ (Mlbs)	Fe ₂ O ₃ (%)
Proven	8.0	1.36	128	109 000	2.2	0.93
Probable	18.9	1.28	127	242 000	5.3	1.25
TOTAL	26.9	1.31	128	351 000	7.6	1.15

Figure 1: Updated Pit Design

METALLURGICAL TEST WORK

Metallurgical test work is ongoing and is not expected to cease even after commissioning. Spirals test work is ongoing and optical sorting is also being considered to further improve on the overall lithia recovery.

CAPITAL COST ESTIMATES

Capital expenditure (CAPEX) estimates have not materially changed since the PFS. The costs have been estimated using firm prices, budget prices, list prices and current industry costs. Ongoing discussions continue with suppliers on pricing to confirm no material change. The capital estimate remains at an accuracy of +/- 25 %.

Table 6 – CAPEX Estimate Summary for Updated PFS

CAPEX Breakdown	USD M
Crushing and Screening	\$2.8
DMS	\$3.7
Flotation	\$9.8
Filtration Drying Bagging	\$4.1
Reagents and Stores	\$4.1
Engineering and Services	\$4.6
Utilities, Infrastructure, Transport	\$5.8
Tailings Storage Facility	\$3.8
Sub Total Capital Expenditure	\$38.6
Mining (pre-stripping)	\$9.1
Contingency	\$4.8
Total Project CAPEX	\$52.5

OPERATING COST ESTIMATES

Operating costs (OPEX) for each of the activities within the project have not substantially varied on a unit basis between the PFS and Updated PFS. The two areas that have changed are:

- Mining as a result of the slight increase in the stripping ratio
- Transport with the lithium concentrates in the Updated PFS being sold on a FOB African port rather than CFR China basis

The latter has a material impact on the overall unit cost of concentrate.

Below is a table detailing the difference in unit OPEX between the two studies.

Table 7 – Unit OPEX Variance PFS vs Updated PFS

Activity	PFS USD/t Conc.	Updated PFS USD/t Conc.
Mining	\$69	\$74
Crushing	\$43	\$44
DMS & Spirals	\$13	\$14
Milling & Flotation	\$32	\$32
Reagents	\$33	\$31
Power	\$15	\$15
Labour	\$17	\$14
Freight & Port	\$94	\$62
Administration	\$25	\$26
Total OPEX	\$342	\$311
<i>with Ta₂O₅ credits</i>	\$320	\$287

Sales and Pricing

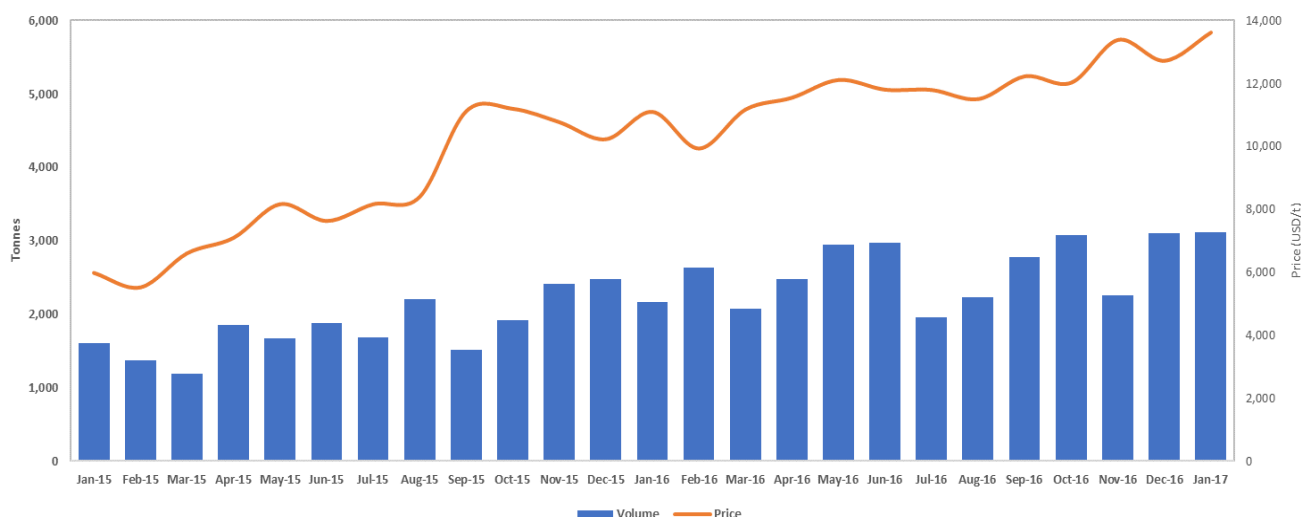
Sales of lithium minerals from the project in the Updated PFS is forecast to average 27 000 tpa LCE in lithium mineral concentrates and approximately 98 000 lb. pa Ta₂O₅ in tantalite concentrates over the LoM.

Table 8 Forecast Sales Volumes.

Product		Year 1	Year 3	Year 5	Year 15	Avg. LoM
+6% Li₂O Spodumene	tpa	70 000	93 000	121 000	126 000	96 000
+4% Li₂O Petalite	tpa	139 000	138 000	84 000	100 000	127 000
Total LCE	tpa	24 000	27 000	26 000	28 000	27 000
Total Lithium Minerals	tpa	208 000	230 000	205 000	227 000	223 000
+25% Ta₂O₅	lb. pa	163 000	149 000	146 000	62 000	98 000

The Spodumene and Petalite concentrate prices as with other lithium concentrate contracts have been derived using formulae linked to the lithium carbonate price delivered into China. This is the structure of the seven-year Offtake Agreement between Prospect and Sinomine with lithium concentrate prices based on a FOB Port of Beira Incoterms® 2010. While current lithium carbonate prices delivered into China are over USD13,500/t reflecting the existing supply/demand dynamics, the Company has taken a conservative view as to long term price for lithium carbonate as additional supply enters the market over the coming years. The long-term lithium carbonate price forecast of USD10,000 equates to price of USD675/t for 6.0% Li₂O spodumene concentrate and USD413/t for 4.1% Li₂O Petalite concentrate. This compares to current announced pricing of around USD900/t for 6% Li₂O spodumene concentrate

Figure 2: Chinese Li₂CO₃ Imports



While the price of tantalite (Ta₂O₅) has remained flat at around USD60/lb over a number of years, prices have recently increased with sales up to USD90/lb. The Company has taken a conservative view of pricing and has retained a long-term price of USD60/lb. There is significant value add to the project if prices continue to rise given the low incremental cost of producing tantalum as a by-product of lithium processing.

Environment and Government Approvals

Following completion, submission and review of the Environment Impact Assessment completed by Independent Consultants over Arcadia, the Zimbabwe Environmental Management Agency (EMA) issued EIA Certificate number 8000018391 to the Company. This grants the Company

permission to operate in accordance with Part XI of the Environmental Management Act (Chapter 20:27) subject to certain specified terms and conditions that are normal for such an authority.

All local stake holders have been consulted and have agreed to the proposed mine plan and development. In addition, the Zimbabwe Investment Authority (ZIA) issued Investment License Number 003496 to the Company which now provides the Company with access to several fiscal and investment benefits and incentives. It was deemed prudent to separate the Company's gold assets from lithium assets into two separate subsidiary structures, each with their own ZIA license. The Board believes that this structure will offer greater flexibility as to how the Arcadia Lithium Project can be financed and also how the Company finances its gold assets.

The Arcadia project now has all approvals in place, as well as a publicised full support of the Zimbabwe Government, to start mining and construction on site. A ground breaking ceremony involving the President of Zimbabwe is planned for in April 2018.

Previously Reported Information

This report includes information and references that relates to Mineral Resources, Ore Reserves and Pre-feasibility Study which were prepared and first disclosed under the JORC Code (2012). The information is sourced from the following ASX announcements:

- 14 March 2017 Significant Mineral Resource Upgrades – Arcadia Lithium
- 16 March 2017 Replacement Announcement – 14 March 2017
- 03 July 2017 Pre-feasibility Study – Arcadia Lithium Project
- 25 October 2017 Significant Increase in Mineral Resource Estimate – Arcadia
- 27 October 2017 Information to comply with Listing Rule 5.8.1
- 10 November 2017 Offtake and Placement and Framework Agreement with Sinomine

For further information, please contact:

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Competent Person's Statements

The information in this announcement that relates to Exploration Results, is based on information compiled by Mr Roger Tyler, a Competent Person who is a Member of The Australasian Institute of Mining and Metallurgy and The South African Institute of Mining and Metallurgy. Mr Tyler is the Company's Senior Geologist. Mr Tyler has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify as a Competent Person as defined in the JORC Code 2012 Edition. Mr Tyler consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this announcement that relates to Mineral Resources is based on information compiled by or under the supervision of Ms Gayle Hanssen of Digital Mining Services, Harare Zimbabwe. Ms Hanssen is registered as Professional Scientist with the South African Council for Professional Natural Scientific Professions (SACNASP) which is a Recognised Professional Organisation (RPO). Ms Hanssen is employed by DMS and has sufficient experience which is relevant to the styles of mineralisation and types of deposit under consideration and to the activity which she is undertaking to qualify as a Competent Person as defined in the JORC Code 2012 Edition. Ms Hanssen consents to the inclusion in the report of the matters based on her information in the form and context in which it appears.

The information in this study that relates to Ore Reserves is based on information compiled by or under the supervision of Mr David Miller, a Competent Person who is a Member of The Australasian Institute of Mining and Metallurgy (MAusIMM). Mr Miller is Prospect Resources' Marketing Consultant. Mr Miller has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify as a Competent Person as defined in the JORC Code 2012 Edition. Mr Miller consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this study that relates to the processing plant and infrastructure design as well as the financial analysis is based on information compiled by or under the supervision of Mr Lee W John of BioMetallurgical, Zimbabwe. Mr John is registered as a Competent Person who is a Fellow of The Australasian Institute of Mining and Metallurgy (FAusIMM CP) and is Fellow with The South African Institute of Mining and Metallurgy (FSAIMM) and is registered as a Professional Engineer with the Engineering Council of South Africa (Pr. Eng. ECSA). Mr John is the Principle Engineer of BioMetallurgical and has sufficient experience which is relevant to the mineral processing project under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code 2012 Edition. Mr John consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.