Prospect Resources

HALF-YEAR FINANCIALREPORT

31 December 2018
ACN 124 354 329

Prospect Resources

DIRECTORS

Hugh Warner
Sam Hosack
Harry Greaves
Gerry Fahey
Zivanayi (Zed) Rusike
HeNian Chen
Meng Sun (alternate director to Mr Chen)

SECRETARY

Andrew Whitten

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LEGAL REPRESENTATIVES

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The directors of Prospect Resources Limited (the Company or Prospect) and its controlled entities (the Group) submit herewith the financial report of the Group for the half-year ended 31 December 2018.

DIRECTORS

The names of the Company's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Hugh Warner

Sam Hosack (appointed 14 July 2018)

Harry Greaves

Gerry Fahey

Zivanayi (Zed) Rusike

HeNian Chen

Meng Sun (alternate director to Mr Chen)

REVIEW OF OPERATIONS

Below is a summary of key operational announcements made during the half-year ended 31 December 2018. Please use the summary as a memory prompt of how much our team has achieved in the period.

Please also refer to the Company's website (www.prospectresources.com.au) as an additional source of information on Prospect.

September 2018 Quarterly

16 July	•	Appointment of Sam Hosack as Managing Director
1 August	•	Appointment of Key Operations Personnel
21 August	•	Grant of Mining Lease over the Arcadia Lithium Mine
29 August	•	Managing Director's Update
30 August	•	Investor Presentation – Africa Down Under
10 September	•	Change of Share Registry to Automic Registry Services
11 September	•	Prospect Receives US$10 Million Export Finance Facility
28 September	•	Prospect Issues Annual Report to Shareholders

DIRECTORS' REPORT

December 2018 Quarterly

3 October	•	PSC increases ownership of the Arcadia Lithium Mine to 87%
26 October	•	Appointment of Investor Relations Manager
30 October	•	Option on Lipropeg Lithium Project Signed
31 October	•	Quarterly Activities Report
31 October	•	Quarterly Cashflow Report
19 November	•	Arcadia DFS confirms leading Lithium Project
19 November	•	Arcadia DFS Investor Presentation
3 December	•	Groundbreaking ceremony at Arcadia Lithium Project
11 December	•	PSC exports lithium carbonate samples

PROSPECT INCREASES OWNERSHIP OF THE ARCADIA LITHIUM PROJECT TO 87%

During the period, Prospect successfully negotiated terms to increase its net ownership in Arcadia to 87% by reaching conditional agreement to purchase Farvic Consolidated Mines Pvt Ltd's (Farvic) 17% free carried interest for A$1,187,210 in cash and 94,976,800 fully paid ordinary shares. The additional 17% interest comes at a dilution to existing Prospect shareholders of 4.6%, without an increase in project capital expenditure. The transaction is subject to approval by the Reserve Bank of Zimbabwe and the Company obtaining shareholder approval in accordance with the ASX Listing Rules.

A notice of meeting of shareholders is expected to be posted to shareholders, once the Reserve Bank of Zimbabwe has approved the transaction.

» ARCADIA LITHIUM PROJECT

Location

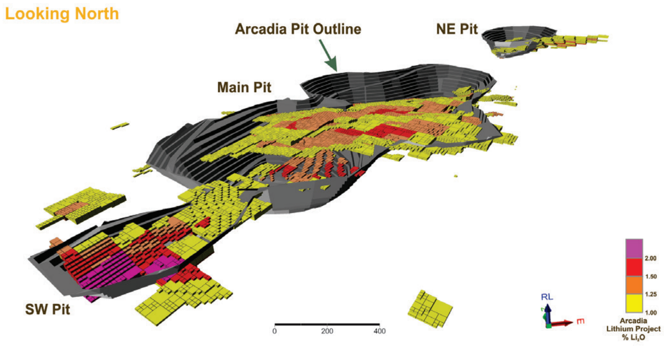
The Arcadia Lithium Project is located approximately 35 km east of Harare, Zimbabwe providing convenient access to skilled and semi-skilled labour. A Mining Lease has been granted over an area of more than 10 km² and Environmental Approvals are in place. The Project is located close to major highways and railheads, with the Beira Port being less than 580 km away by rail/road transport. Grid power access via switchyard is within 4 km of the Project with 20 MVA capacity. There is also surplus groundwater available.

Location of Arcadia Project

Geology & Exploration

The Arcadia Lithium deposit is hosted within a series of 14 stacked, sub parallel petalite-spodumene bearing pegmatites that intrude the local Archaean age Harare Greenstone Belt. Dimensions of the pegmatites defined by drilling to date are 4.5 km along strike (SW-NE), with an average thickness of 15 m and dipping 15 degrees to the NW. The Main Pegmatite is exposed in the historical pit, and the deposit is open along strike to the southwest. The deposit is cut by the NNE-SSW trending Mashonganyika Fault zone, as well as a regional SW-NE trending dolerite dyke that appears to truncate the pegmatite to the NW.

A total of 194 RC and 111 diamond drill holes have been drilled on the project (26,682m).



JORC Mineral Resource and Reserve Estimates

The Ore Reserve hosts ~ 868,000 t contained lithium carbonate equivalent (LCE) and supports a 12 year mine life.

Arcadia Ore Reserve Statement (>1% Li_2O) (6 December 2017)

Category	Tonnes	Li_2O %	Ta_2O_5 ppm	Li_2O Tonnes	Ta_2O_5 (Mlbs)
Proven	8,000,000	1.36	128	109,000	2.2
Probable	18,900,000	1.28	127	242,000	5.3
TOTAL	26,900,000	1.31	128	351,000	7.6

Arcadia JORC Mineral Resource Statements (24 October 2017)

High Grade Zone- 1% Li_2O Cut-off					
Category	Tonnes	Li_2O %	Ta_2O_5 ppm	Li_2O Tonnes	Ta_2O_5 (Mlbs)
Measured	10,200,000	1.45%	132	148,100	3.0
Indicated	27,200,000	1.39%	119	378,400	7.1
Inferred	5,800,000	1.45%	97	84,000	1.2
TOTAL	43,200,000	1.41%	119	610,500	11.3

Global Resource- 0.2% Li_2O Cut-off					
Category	Tonnes	Li_2O %	Ta_2O_5 ppm	Li_2O Tonnes	Ta_2O_5 (Mlbs)
Measured	15,900,000	1.17%	121	184,900	4.2
Indicated	45,400,000	1.10%	121	501,500	12.1
Inferred	11,400,000	1.06%	111	121,400	2.8
TOTAL	72,700,000	1.11%	119	807,800	19.1

Arcadia Project Highlights

Prospect released the outcomes of its Definitive Feasibility Study (DFS) on 19 November 2018. The pre-tax NPV (10% discount rate) of the project base case is US$511 m, at a long-term Lithium Carbonate (LC) price of US$12,000 per tonne FOB Beira (based on a CIF China price as per the Sinomine Offtake Agreement). The life of mine average price for spodumene and petalite concentrate applied in the study is US$689/t FOB and US$457/t FOB respectively.

The key parameters and financial outcomes for the 2.4 Mtpa DFS are set out below:

Operating Parameters	Units	Value
Life Of Mine Modelled (All Open Pit)	Years	12
Plant Throughput	Mtpa	2.4
Average Lithia Head Grade	%	1.35%
Average Lithia Recovery	%	67.9%
Average Life Of Mine Spodumene Production	ktpa	212
Average Life Of Mine Petalite Production	ktpa	216

Capital and Operating Costs	Units	Value
Average Life Of Mine Cash Operating Cost (FOB)[1]	US$/t conc.	285
Capital Costs (Carried To Positive Cash Flow)	US$M	165
Sustaining Capital	US$M	29
Life Of Mine Spodumene Concentrate Price	US$/t	689
Life Of Mine Petalite Concentrate Price	US$/t	457

[1] Cash operating cost include mining, processing, general administration and selling costs, transport and loading, royalty and government marketing costs and are net of Ta_2O_5 by-product credits

» ARCADIA LITHIUM PROJECT

Arcadia Project Highlights (continued)

Financial Summary	Units	Value
Average Annual Free Cash Flow from Operations (Pre-tax)	US$M	104
Average Annual Free Cash Flow from Operations (Post-tax)	US$M	90
Life of Mine Revenue (excl. Ta Credits)	US$M	2,934
Average Annual EBITDA	US$M	106
Pre-Tax NPV^{10}	US$M	511
Pre-Tax IRR	%	44
Post Tax NPV^{10}	US$M	458
Post Tax IRR	%	42
Operating Margin	%	38
Payback Period (From Commencement of Production)	Years	2.5

On 5 March 2019, the Group announced that value engineering had successfully demonstrated that the Arcadia Lithium Project will be able to use High Pressure Grinding Rolls (HPGR) in its process design, resulting in:

- Reduction in capital expenditure by US$2.3m (1.4%) to US$163m
- Reduction of operating expenditure by US$7/t or 2.46% (approx. US$3.2m p.a.) to US$278/t.
- Increase NPV^{10} by US$22m to US$533m, increased average EBITDA by US$3m to US$109m.

Special Economic Zone

The Group has received Special Economic Zone (SEZ) status. SEZ status at Arcadia provides Prospect with an extensive list of benefits that includes; tax relief and exemptions and the ability to hold and operate foreign currency accounts, as well as exemptions and reductions of costs & trade barriers associated with the import of raw materials and capital goods through to the exportation of concentrates. The incentives and benefits to be received from the SEZ status, reinforces the financial outcomes of the Project outlined in the DFS.

Arcadia Pilot Plant

The Group produced >99.5% lithium carbonate during the year in its Kwekwe laboratory using Arcadia petalite. The results from the laboratory scale lithium carbonate have been fed through to the pilot plant design. The pilot plant provides the Group and potential offtakers valuable knowledge on how to optimise the lithium carbonate process from the Arcadia petalite concentrates.

The establishment of a lithium chemical plant at Arcadia would make the Arcadia Project one of the few vertically integrated lithium projects in the world and certainly a first for Africa. Arcadia has the added benefit of its proximal location to key infrastructure such as electricity, by-product consumers and transport resources, as well as regional access to major consumables such as coal and sulphuric acid that are required for the conversion process.

» OTHER ZIMBABWE PROJECTS

> Good Days – Lithium

The 8km² Good Days lithium project is located in north eastern Zimbabwe and contains numerous mineralised pegmatites, including historical workings for spodumene and tantalite (amongst other minerals) at the Good Days and Jordywyitt mines

> Lipropeg- Pegmaton

On 30 October 2018, Prospect signed a 90 day option to acquire the Lipropeg Lithium Project from Pegmaton Resources Pvt (Ltd). The Group has allowed this option to expire.

> Penhalonga – Gold

The Penhalonga Gold Project consists of a number of shear and vein hosted gold deposits along the southern side of the Penhalonga Valley covering an area of approximately 1.8km², including the historic Battersea Gold Mine and the dormant Penhalonga Gold Mine, 5km north of Mutare. It is situated in the Mutare Greenstone Belt which extends eastward into Mozambique. In terms of gold production per unit area, the Mutare Greenstone Belt at 122kg Au/km² is one of the richest belts within Zimbabwe. Historical production from the Penhalonga valley between 1897 and 1937 amounted to: Gold 1.3m oz, Silver 1.6m oz, Lead 7,258 tonnes and Copper 5.2 tonnes. Prospect also owns a number of lead tenements within the Mutare Greenstone Belt.

> Chishanya – Phosphate

The Chishanya Phosphate Project is one of 5 known phosphate bearing carbonatites in Zimbabwe. The deposit has been explored by a number of companies since the 1950s including Anglo American and Rhodesia Chrome Mines Ltd. The deposit is a series of un-exploited phosphate bearing, apatite-magnetite lenses in carbonatite located near Birchenough Bridge, Manicaland. The potential for Rare Earth Elements (REEs) has also never previously been assessed.

> Gwanda East - Gold

The Group continues to evaluate the gold potential of the greater Farvic gold camp through accessing and developing existing historical infrastructure, surface and underground diamond drilling as well as focused surface geochemical surveys.

Whilst we have discovered gold within the Sally and Prestwood mining claims, they are insufficient to run a standalone mine. As a consequence, the Group has impaired its capitalised expenditure on the Gwanda East Gold Project.

» DEMOCRATIC REPUBLIC OF CONGO PROJECTS

The Group reviewed battery mineral projects in the DRC, with emphasis on cobalt projects with some history of production or an existing resource statement.

FINANCIAL RESULTS

	Half-year ended 31 December 2018 $'000	Half-year ended 31 December 2017 $'000
Reported loss after tax	(4,135)	(2,640)
Exploration and evaluation expenditure expensed	328	762
Impairment of exploration and evaluation	103	444
Project generation expense	1,299	122
Share based payments expense	535	299
Loss after adjustment for exploration expenditure, impairments, project generation and share based payments	(1,870)	(1,013)

The loss after adjustment for exploration and evaluation expenditure, impairments, project generation and share based payments has increased from the prior year period as the Group progresses the Arcadia Project and prepares for the next stage, being its development.

Exploration and evaluation expenditure expensed relates to expenditure incurred by the parent, Prospect Resources Limited on the Arcadia Project.

The Group has impaired costs incurred on the Prestwood and Sally Mines.

Project generation comprises expenditure on regional Zimbabwe exploration, DRC exploration and other African regional exploration where the Group does not own the tenements.

The Company issued 45,000,000 options on 13 May 2018 (2017: 65,000,000 options) which have been recognised over its vesting period to 14 October 2018.

ROUNDING OF AMOUNTS

The Group has applied the relief available to it under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. Accordingly, the amounts in the financial statements and directors' report have been rounded to the nearest $1,000.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 10 of this report.

Signed in accordance with a resolution of the directors made pursuant to s.306(3) of the Corporations Act 2001.

Sam Hosack

Managing Director

14 March 2019

COMPETENT PERSON STATEMENT

The information in this announcement that relates to Exploration Targets and 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 Chief 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 2012 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”. 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 (DMS), 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 report that relates to Ore Reserves is based on and fairly represents information and supporting documentation 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.

Auditor's Independence Declaration

Stantons International Audit and Consulting Pty Ltd
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14 March 2019

The Directors
Prospect Resources Limited
Suite 6, 245 Churchill Ave
SUBIACO, WA 6008

Dear Sirs

RE: PROSPECT RESOURCES LIMITED

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Prospect Resources Limited.

As Audit Director for the review of the financial statements of Prospect Resources Limited for the half year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours faithfully

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LIMITED
(Trading as Stantons International)
(An Authorised Audit Company)

Martin Michalik
Director

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Notes	Half-year ended 31 December 2018 $'000	Half-year ended 31 December 2017 $'000
Revenue from continuing operations	3(a)	3,534	1,590
Cost of sales	3(b)	(2,368)	(988)
Depreciation expense		(49)	(77)
Employee benefits expenses		(1,096)	(288)
Exploration and evaluation expenditure expensed		(328)	(762)
Farming expenses		(202)	-
Impairment of exploration and evaluation expenditure	6(a)	(103)	(444)
Occupancy expenses		(27)	(27)
Project generation expense		(1,299)	(122)
Share based payments – options expense	10	(535)	(299)
Other administration expenses		(1,662)	(1,223)
Loss before income tax		(4,135)	(2,640)
Income tax		-	-
Loss after tax		(4,135)	(2,640)
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss		-	-
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		797	(106)
Other comprehensive income / (loss) for the period net of tax		797	(106)
Total comprehensive loss for the period		(3,338)	(2,746)
Loss attributable to:			
Equity holders of the Company		(4,110)	(2,606)
Non-controlling interests		(25)	(34)
		(4,135)	(2,640)
Total comprehensive loss attributable to:			
Equity holders of the Company		(3,108)	(2,712)
Non-controlling interests		(230)	(34)
		(3,338)	(2,746)
Earnings per share (cents per share)			
- Basic loss for the half -year	11	(0.21)	(0.16)
- Diluted loss for the half-year	11	(0.21)	(0.16)

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	31 December 2018 $'000	30 June 2018 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	4	8,067	16,393
Trade and other receivables		706	325
Inventories		-	228
Other current assets	5	823	365
Total Current Assets		9,596	17,311
Non-Current Assets			
Property, plant and equipment		1,819	1,358
Exploration and evaluation expenditure	6(a)	87	11,430
Mine properties	6(b)	18,382	-
Intangible assets		480	151
Total Non-Current Assets		20,768	12,939
TOTAL ASSETS		30,364	30,250
LIABILITIES			
Current Liabilities			
Trade and other payables	7	3,747	1,217
Tax liabilities		157	251
Provisions		154	-
Total Current Liabilities		4,058	1,468
Non-Current Liabilities			
Provisions		43	41
Total Non-Current Liabilities		43	41
TOTAL LIABILITIES		4,101	1,509
NET ASSETS		26,263	28,741
EQUITY			
Contributed equity	8(b)	57,061	56,736
Reserves		12,020	10,483
Accumulated losses		(41,636)	(37,526)
Total Equity Attributable to Shareholders of Parent Company		27,445	29,693
Non-controlling interests		(1,182)	(952)
TOTAL EQUITY		26,263	28,741

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Notes	Half-year ended 31 December 2018 $'000	Half-year ended 31 December 2017 $'000
Cash flows from operating activities			
Receipts from customers		4,770	549
Payments to suppliers and employees		(6,467)	(1,688)
Payments for exploration expenditure expenses		(532)	(864)
Income tax paid		(94)	-
Net cash flows (used in) operating activities		(2,323)	(2,003)
Cash flows from investing activities			
Interest received		75	4
Payments for development costs		(5,888)	-
Payments for plant and equipment		(446)	(182)
Payments for exploration expenditure (net of gold sold)		(4)	(2,897)
Payments for intangible assets		(329)	-
Net cash flows (used in) investing activities		(6,592)	(3,075)
Cash flows from financing activities			
Proceeds from issue of shares		325	150
Net cash flows from financing activities		325	150
Net (decrease) in cash and cash equivalents		(8,590)	(4,928)
Cash and cash equivalents at beginning of period		16,393	7,339
Effects of exchange rate changes on the balance of cash held in foreign currencies		264	(66)
Cash and cash equivalents at end of period	4	8,067	2,345

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Issued shares $'000	Option reserve $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Attributable to owners of the parent $'000	Non-controlling interests $'000	Total Equity $'000
At 1 July 2018	56,736	10,312	171	(37,526)	29,693	(952)	28,741
Loss for the period	-	-	-	(4,110)	(4,110)	(25)	(4,135)
Other comprehensive income:							
Exchange differences arising on translation of foreign operations	-	-	1,002	-	1,002	(205)	797
Total comprehensive loss for the period	-	-	1,002	(4,110)	(3,108)	(230)	(3,338)
Issue of ordinary shares upon exercise of options	325	-	-	-	325	-	325
Options issued	-	535	-	-	535	-	535
At 31 December 2018	57,061	10,847	1,173	(41,636)	27,445	(1,182)	26,263
At 1 July 2017	36,976	9,614	(204)	(31,945)	14,441	(1,043)	13,398
Loss for the period	-	-	-	(2,606)	(2,606)	(34)	(2,640)
Other comprehensive income:							
Exchange differences arising on translation of foreign operations	-	-	(106)	-	(106)	-	(106)
Total comprehensive loss for the period	-	-	(106)	(2,606)	(2,712)	(34)	(2,746)
Issue of ordinary shares upon exercise of options	150	-	-	-	150	-	150
Options issued	-	299	-	-	299	-	299
At 31 December 2017	37,126	9,913	(310)	(34,551)	12,178	(1,077)	11,101

The accompanying notes form part of these financial statements

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 134 Interim Financial Reporting. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

b) Basis of Preparation

These general purpose interim financial statements for the half-year reporting period ended 31 December 2018 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: Interim Financial Reporting. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Prospect Resources Limited and its controlled entities (referred to as the "Consolidated Group" or "Group"). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2018, together with any public announcements made during the following half-year.

These interim financial statements were authorised for issue on 14 March 2019.

c) Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements. The Group has considered the implications of new and amended Accounting Standards that became applicable on or after 1 January 2018 but determined that their application to the financial statements is either not relevant or not material.

d) Going concern

For the period ended 31 December 2018, the Group recorded a loss of $4,135,000 (2017: loss $2,640,000) and had net cash outflows from operating and investing activities of $8,915,000 (2017: $5,078,000). As at reporting date, the Group had cash and cash equivalents of $8,067,000. These conditions indicate a material uncertainty that may cast significant doubt about the Group's and the Company's ability to continue as going concerns.

The Group's principal objective is to develop the Arcadia Project and as such, it does not presently have a source of operating income sufficient to fund its operations, rather it is reliant on equity raisings or funds from other external sources to fund its activities.

To support the activities outlined in the Directors' Report, the Group will be required to raise additional funds. The Group has previously been successful in raising cash through equity raisings, as and when required.

The consolidated interim financial statements for the half-year ended 31 December 2018 have been prepared on a going concern basis, as in the opinion of Directors, the Group will be in a position to meet its operating costs and pay its debts as and when they fall due for at least twelve months from the date of this report.

However, the Directors acknowledge that material uncertainty remains over the Group's ability to meet its funding requirements, as future funding is uncertain until secured. If for any reason the Group is unable to continue as a going concern, then this could impact the Group's ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the consolidated interim financial statements.

e) Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent, Prospect Resources Limited, and all of the subsidiaries. Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 13.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between Group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

(f) Impact of Standards Issued but not yet Applied by the Entity

AASB 16 was issued in February 2016. When applied, it will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The adoption of AASB16 in the financial year ended 30 June 2020 is expected not to have a material impact on the financial statements and the Group has not yet quantified the impact. The estimated impact is expected to be disclosed in the 30 June 2019 annual report. The Board expects the impact to be insignificant.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

2. SEGMENT INFORMATION

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (the chief operating decision maker) in assessing performance and determining the allocation of resources.

In the current period the Group engaged in exploration for minerals in Australia, Zimbabwe and DRC. The operations were located in Australia, Zimbabwe and DRC with the head office being in Australia.

	Australia		Zimbabwe		DRC		Consolidated	
Geographical segments	Half-year 2018 $'000	Half-year 2017 $'000	Half-year 2018 $'000	Half-year 2017 $'000	Half-year 2018 $'000	Half-year 2017 $'000	Half-year 2018 $'000	Half-year 2017 $'000
Revenue								
Other external revenue	75	4	3,459	1,586	-	-	3,534	1,590
Total segment revenue	**75**	**4**	**3,459**	**1,586**	**-**	**-**	**3,534**	**1,590**
Results								
Segment net loss before tax	(3,262)	(2,514)	(93)	(126)	(780)	-	(4,135)	(2,640)
Depreciation	**2**	**1**	**34**	**76**	**13**	**-**	**49**	**77**

	31 Dec 2018 $'000	30 June 2018 $'000	31 Dec 2018 $'000	30 June 2018 $'000	31 Dec 2018 $'000	30 June 2018 $'000	31 Dec 2018 $'000	30 June 2018 $'000
Assets								
Segment assets	7,628	16,034	22,418	14,216	318	-	30,364	30,250
Liabilities								
Segment liabilities	785	640	3,244	869	72	-	4,101	1,509

3(a). REVENUE

	Half-year ended 31 Dec 2018 $'000	Half-year ended 31 Dec 2017 $'000
Sale of merchandise	3,194	1,216
Farm income	221	308
Other income	44	62
Interest revenue	75	4
	3,534	1,590

3(b). COST OF SALES

Cost of sales from merchandise	2,121	855
Cost of sales from farming	247	133
	2,368	988

4. CASH AND CASH EQUIVALENTS

For the purposes of the half-year statement of cashflows, cash and cash equivalents are comprised of the following:

	31 Dec 2018 $'000	30 June 2018 $'000
Cash at bank and in hand	8,067	16,393

Included in the Group's cash and cash equivalents are Zimbabwean bond notes/RTGS balances. Bond notes/RTGS balances are debt instruments which have been disclosed under cash and cash equivalents as they meet the definition of cash and cash equivalents. During the period and at 31 December 2018, these bond notes/RTGS balances were pegged at 1:1 to the US dollar and were considered legal tender in Zimbabwe at this pegged rate. Subsequent to 31 December 2018, the Governor of the Reserve Bank of Zimbabwe released a Monetary Policy Statement which sought to achieve two outcomes. The first was to amend the country's functional currency from the US$ to a new currency known as the RTGS dollar (the definition of which includes the former bond notes). Secondly, the pronouncement removed the 1:1 pegged rate and established an inter-bank foreign exchange market in Zimbabwe to formalise the trading of RTGS dollars with US$ and other currencies on a willing-buyer willing-seller basis through banks and bureaux de change. Immediately after the effective date of the Statutory Instrument giving effect to the Monetary Policy Statement (being 25 February 2019) the opening published inter-bank exchange rate was RTGS dollars 2.50 to US$ 1.00. The Group holds A$118,000 (30 June 2018 A$563,000) in Zimbabwe RTGS dollars which is included in the cash at bank balance. These amounts have been translated at the previous pegged rate related to bond notes/RTGS balances of 1:1 to the US$ and no adjustments have been affected in these financial statements as a result of the changes introduced by the Monetary Policy Statement. These funds are freely available for use in Zimbabwe but due to the current economic environment, the transfer of funds outside of the country is limited.

5. OTHER ASSETS

	31 Dec 2018 $'000	30 June 2018 $'000
Goods in transit	316	270
Prepayments	507	95
	823	365

6. EXPLORATION, EVALUATION & MINE PROPERTIES

	31 Dec 2018 $'000	12 Months 30 June 2018 $'000
Total expenditure incurred and carried forward in respect of specific projects		
Exploration & Evaluation Expenditure		
Arcadia - Lithium	-	11,348
Good Days - Lithium	79	74
Verdale - Lithium	8	8
Gwanda East – Gold	-	-
Mine Properties		
Arcadia – Lithium	18,382	-
	18,469	11,430

a) Exploration & Evaluation Expenditure		
Opening balance	11,430	6,443
Acquisition of tenements	-	68
Expenditure incurred	145	5,467
Impairment of exploration & evaluation expenditure	(103)	(651)
Proceeds from gold sales from exploration and evaluation ore	(37)	(159)
Transfer to mines under construction	(11,348)	-
Effect of foreign currency exchange differences	-	262
Closing balance	87	11,430

b) Mine Properties		
Mines Under Construction		
Opening balance	-	-
Transfer from exploration & evaluation expenditure	11,348	-
Expenditure incurred	7,545	-
Effect of foreign currency exchange differences	(511)	-
Closing balance	18,382	-

7. TRADE AND OTHER PAYABLES

	31 Dec 2018 $'000	30 June 2018 $'000
Trade creditors	1,755	842
Accruals	583	362
Unearned trading income	1,302	-
Related party payable	79	-
Other payables	28	13
	3,747	1,217

No trade creditors are past due and are normally settled on 30 – 60 day terms.

8. CONTRIBUTED EQUITY

a) Issued share capital	31 Dec 2018 Shares	30 June 2018 Shares
Ordinary shares fully paid	2,046,114,971	1,981,114,971

b) Movement in ordinary share capital	Number of shares	$'000
Balance at 1 July 2017	1,594,128,296	36,976
Issue of shares via placements	366,666,673	20,000
Issue of shares upon exercise of options	10,000,000	150
Issue of shares as part of cost of capital raisings	10,320,002	516
Cost of capital raising	-	(906)
Balance at 30 June 2018	1,981,114,971	56,736
Issue of shares upon exercise of options	65,000,000	325
Balance at 31 December 2018	2,046,114,971	57,061

9. OPTION RESERVE

	31 Dec 2018 Options	31 Dec 2018 $'000	30 Jun 2018 Options	30 Jun 2018 $'000
a) Options at the end of the period	180,000,000	10,847	310,000,000	10,312

b) Movement in options

Date	Details	Number of option	Fair value issue price	$'000
01/07/2017	Opening balance	190,000,000		9,614
21/07/2017	Options issued	65,000,000	$0.0046	299
14/12/2017	Options exercised	(10,000,000)		-
06/02/2018	Options issued	20,000,000	$0.0075	151
13/05/2018	Options issued	45,000,000	$0.0174	248
Balance at 30 June 2018		310,000,000		10,312
	Share based payment expense for options granted 13/05/2018 vesting in current period			535
11/10/2018	Options exercised	(5,000,000)		-
19/11/2018	Options exercised	(60,000,000)		-
31/12/2018	Options expired	(65,000,000)		-
Balance at 31 December 2018		180,000,000		10,847

10. SHARE BASED PAYMENTS

a) Options

The share based payments expense was $535,000 (31 December 2017: $299,000). The following table lists the inputs to the model used:

No. of options	45,000,000
Grant date	13/05/2018
Share price	$0.038
Exercise price	$0.06
Interest rate	2.015%
Expiry date	12/05/2022
Volatility	91.83%
Fair value at grant date before discount	$0.0217
Discount for being unlisted	20%
Fair value after discount	$0.0174

The above options were granted on 13 May 2018 and vested on 14 October 2018.

11. EARNINGS PER SHARE

	Half-year ended 31 Dec 2018	Half-year ended 31 Dec 2017
Basic and diluted loss per share (cents per share)	(0.21)	(0.16)
Amount used in the calculation of basic EPS		
Loss after income tax attributable to members of Prospect Resources Limited ($'000)	(4,110)	(2,606)
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic loss per share	1,997,011,710	1,595,052,209

The options of the Company are not considered dilutive for the purpose of the calculation of diluted earnings per share as their conversion to ordinary shares would not decrease the net profit per share nor increase the net loss per share. Consequently, diluted earnings per share is the same as basic earnings per share

12. EVENTS AFTER BALANCE DATE

Other than the following, the directors are not aware of any significant events since the end of the reporting period:

1) 20m options with an exercise price of $0.10 expired on 6 February 2019.

2) The Zimbabwe subsidiaries functional currency is US$. Zimbabwe uses US$, bond notes and RTGS . Bond notes/ RTGS balances are debt instruments and during the period and at 31 December 2018, were pegged at 1:1 to the US dollar and were considered legal tender in Zimbabwe at this pegged rate. Subsequent to 31 December 2018, the Governor of the Reserve Bank of Zimbabwe released a Monetary Policy Statement which removed the 1:1 pegged rate and established an inter-bank foreign exchange market in Zimbabwe to formalise the trading of RTGS balances and bond notes with US$ and other currencies on a willing-buyer willing-seller basis through banks and bureaux de change. The initial exchange rate was 2.5:1 with the US dollar. The assets and liabilities affected by the Monetary Policy Statement is cash and cash equivalent, trade and other receivables and trade and other payables. The financial impact of this change has not been recognised in the Groups accounts at 31 December 2018.

13. INTEREST IN SUBSIDIARIES

Information about principal subsidiaries

Set out below are the Group's subsidiaries at 31 December 2018. The subsidiaries listed below have share capital consisting solely of ordinary shares which are held directly by the Group and the proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's country of incorporation or registration is also its principal place of business.

	Principal activity	Country incorporation	Ownership and voting interest Dec 2018	Ownership and voting interest Jun 2018
Prospect Minerals Pte Ltd	Holding company	Singapore	100%	100%
Prospect Lithium Zimbabwe (Pvt) Limited	Exploration & evaluation	Zimbabwe	70%	70%
Hawkmoth Mining & Exploration (Pvt) Ltd	Exploration & evaluation	Zimbabwe	70%	70%
Coldawn Investments (Private) Limited	Exploration & evaluation	Zimbabwe	70%	70%
Thornvlei Farming Enterprises (Private) Limited	Farming	Zimbabwe	70%	70%
Prospect Cobalt Pte Ltd	Holding company	Singapore	100%	100%
Prospect Cobalt Sub 1 Pte Ltd	Holding company	Singapore	100%	100%
Prospect Cobalt DRC	Exploration & evaluation	DRC	100%	-

14. CONTINGENT LIABILITIES

The Group has no contingent liabilities.

15. COMMITMENTS

The Group has commitments for $1,000,000 at 31 December 2018.

DIRECTORS' DECLARATION

In the opinion of the Directors of Prospect Resources Limited ("the Company")

(a) the financial statements and notes set out on pages 11 to 23 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Group as at 31 December 2018 and of its performance for the half-year ended on that date; and

(ii) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

(b) in the directors' opinion, as set out in Note 1(d), there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Directors

Sam Hosack
Managing Director

Perth, 14 March 2019.

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**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
PROSPECT RESOURCES LIMITED**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Prospect Resources Limited, which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the half-year ended on that date, condensed notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for Prospect Resources Limited (the consolidated entity). The consolidated entity comprises both Prospect Resources Limited (the Company) and the entities it controlled during the half year.

Directors' Responsibility for the Half-Year Financial Report

The directors of Prospect Resources Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Prospect Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Whilst we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by the directors or management.

INDEPENDENT AUDITOR'S REVIEW REPORT

Stantons International

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been provided to the directors of Prospect Resources Limited on 14 March 2019.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Prospect Resources Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Material Uncertainty Regarding Going Concern

We draw attention to note 1(d) of the financial report, which describes that the financial report has been prepared on a going concern basis. At 31 December 2018 the Group had net assets of $26,263,000, cash and cash equivalents of $8,067,000 and net working capital surplus of $5,538,000. The Group had incurred a loss for the period ended 31 December 2018 of $4,135,000 and had net cash outflows from operating activities of $2,323,000.

The ability of the Group to continue as a going concern and meet its mine development, exploration, administration, and other commitments is dependent upon the future successful raising of necessary funding through equity or borrowings, successful exploitation of the Group's mine properties, and or sale of non-core assets. In the event that the Group cannot raise further equity, or long term borrowings the Group may not be able to meet its liabilities as they fall due or realise its assets in the normal course of business.

Our conclusion is not modified in respect of this matter.

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(Trading as Stantons International)
(An Authorised Audit Company)

Stantons International Audit & Consulting Pty Ltd

Martin Michalik
Director

West Perth, Western Australia
14 March 2019

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