

PROSPECT EXECUTES CONDITIONAL OFFTAKE AND CONDITIONAL PLACEMENT AND FRAMEWORK AGREEMENT TO FULLY FUND CONSTRUCTION OF MINE AND PLANT FOR PROSPECT'S ARCADIA LITHIUM PROJECT

Highlights:

- Prospect Resources Limited ("Prospect") executes conditional Placement and Framework Agreement with Sinomine Resources Exploration Co. Ltd. and Sinomine International Exploration (Hong Kong) Co. Ltd. (collectively "Sinomine").
- Conditional Placement and Framework Agreement includes the following parts:
 - Placement and Framework Agreement – Sinomine to invest A\$10,000,000 via a share placement in Prospect at A\$0.05 per share.
 - Offtake Agreement – Prospect agrees to sell:
 - 390,000 tonnes of Spodumene Concentrate; and
 - 1,097,000 tonnes of Petalite Concentrate;over a proposed 7 year period priced using a market linked price which is referenced to Lithium Carbonate sold into China
 - Lithium Carbonate Plant – Prospect can, at any time, build a lithium carbonate plant and divert 50% of the Petalite Concentrate to this facility and supply Lithium Carbonate to Sinomine under the Offtake contract

- The parties have also agreed indicative terms for a Facility Agreement and a Build and Transfer Contract. These term sheets (the parties must agree final terms within 3 months) provide:
 - Facility Agreement Term Sheet – Sinomine fully finance the Build and Transfer Contract outlined below, including relevant working capital to take the mine to annualised production targets and Prospect will commence repayments of the facility upon shipment of first product under the Offtake Agreement.
 - Build and Transfer Contract Term Sheet – Sinomine will:
 - Construct, build and commission the mine, tailings facilities, plant and equipment and all associated infrastructure for the Arcadia Lithium Project on a build and transfer basis;
 - Prospect will take ownership of the plant once the mine and plant have achieved 3 months of annualised production as per the above Offtake Agreement;
 - Prospect, in conjunction with Sinomine, will commission BGRIMM (Beijing General Research Institute of Mining & Metallurgy) to prepare a definitive feasibility study to be completed in 3 months. BGRIMM is the parent company of Easpring, one of China’s leading lithium cathode producers;
 - Prospect and Sinomine establish a joint committee immediately to finalise design and implementation of the plant under the Build and Transfer Contract. Prospect has final sign-off on design, quality assurance and achievement of name plate capacity. Prospect intends to have staff based in China during the construction of the plant to ensure design standards are adhered to.

- Sinomine has operated in Zimbabwe for many years and has staff permanently based in Zimbabwe carrying out mining operations and drilling services with its head office based in Harare
- Prospect expects the Arcadia Lithium Project to be in production within 12 months from breaking ground

The Chairman of Prospect said: "The transaction will fully fund the building of Prospect's Lithium Mine and Plant at the Arcadia Lithium Project through to full production. This deal is the culmination of close to a year's work. During this time, we have developed a close relationship with Sinomine and we like their style and commitment to both the project and the Prospect Team. This is evidenced by the significant commitment to developing this important resource. Both teams are co-operating closely to integrate their considerable technical knowledge into a structured efficient roll out. As previously reported, the Prospect Team has been carefully assembled over the last 18 months in preparation for just such a scenario."

Mr Pingwei Wang, President & CEO of Sinomine said: "I am very pleased that Sinomine and Prospect can agree and sign the share purchase and offtake agreement today. As a listed company actively engaged in the mining industry and mining development on an international basis, Sinomine has the ability and confidence to work together with Prospect to develop the Arcadia Lithium Project in Zimbabwe. We believe through the cooperation of both parties, it will create value for the local community as well as shareholders of both companies."



The Arcadia Lithium Project contains the largest JORC Code reported lithium deposit in Africa, comprising ~808 000t contained lithium oxide (over ~2 000 000t contained lithium carbonate equivalent – LCE).

About Sinomine Resource Exploration Co. Ltd.

Founded in 1999, Sinomine Resource Exploration Co., Ltd., (hereinafter “Sinomine”) originated from China Nonferrous Metal Mining (Group) Co., Ltd and is now a modern integrated geo-tech services company with head offices in Beijing, China. The company has been listed on the Shenzhen Stock Exchange (002738) since December 2014. The company now employs over 300 senior professional technicians and managers and its main business lines include solid mineral prospecting services, mining investment, resource evaluation services and international trade and logistics services. Sinomine operates to international best practice and regulations and standards in geo-tech services, such as JORC and NI43-101.

Sinomine has worked on projects with a number of large Chinese enterprises since the early 2000s as they undertook their “going out” strategies and investments,

which were endorsed by the Chinese Government. As a result, Sinomine has completed a number of large international geological exploration projects for Chinese companies worldwide including in Zambia, Pakistan, Afghanistan and many other countries. Sinomine has the capability of taking a dozen large international geological exploration projects at a time. Sinomine also provides resource evaluation services on several international financing projects, focused on reducing the risks in resource investment and providing a basis for decision making. Sinomine has carried out exploration and mining activities in over 20 different countries around the world including Zimbabwe, Zambia, Congo (DRC) and has subsidiaries in each of these jurisdictions.

About Sinomine Resource (Hong Kong) International Exploration Co. Ltd.

Sinomine Resource (Hong Kong) International Trading Co. Limited is a wholly-owned subsidiary of Sinomine Resource Exploration Co. Ltd. Its business scope covers import and export of equipment, technology sales business including mechanical equipment and accessories, minerals, chemical products, and raw materials.

The company is based in Hong Kong and is dedicated to developing international markets in Eastern Europe and Southern African for its products and services. The company continues to build out its interests in international trade, mineral property investment and geo-technology services.

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Competent Person's Statement

The information in this announcement that relates to Exploration Results, Exploration Targets and Mineral Resources and Ore Reserves 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 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.

Summary of Placement and Framework Agreements and Offtake Agreement

Placement and Framework Agreement

Sinomine has conditionally agreed to subscribe for 200,000,000 fully paid ordinary shares in Prospect at \$0.05 per share (\$10,000,000) to fund the development of the Arcadia Lithium Project (**Project**). If the placement completes, Sinomine will hold approximately 11.14% of the issued share capital in Prospect based upon the current number of shares on issue.

The other key terms of the Framework Agreement are as follows:

- Sinomine is entitled to appoint one director to the Board of Prospect provided Sinomine maintains a minimum shareholding of 10% of the issued share capital in Prospect;
- Sinomine to conduct a definitive feasibility study for the Project for funding purposes;
- Prospect and Sinomine will execute the Offtake Agreement (this has happened); and
- Prospect and Sinomine will negotiate and enter into a Build and Transfer Contract and Facility Agreement for the financing and construction of a mine and plant and equipment for the Project (**Mine**).

The placement is within Prospect's placement capacity under ASX Listing Rules 7.1 and 7.1A and accordingly no shareholder approval is required in connection with the placement. At present, Prospect intends to issue 174,119,244 shares under its capacity under ASX Listing Rule 7.1 and 25,880,756 shares under its capacity under ASX Listing Rule 7.1A. Following the annual general meeting on 13 November 2017, the proposed split of the shares between ASX Listing Rules 7.1 and 7.1A may change. The placement completes within 5 business days of the satisfaction of the conditions precedent.

The Placement and Framework Agreement is conditional upon:

- (1) Prospect and Sinomine each obtaining necessary regulatory approvals (including National Development Reform Commission, the Ministry of Commerce and State Administration of Foreign Exchange and FIRB); and
- (2) the parties negotiating and executing the Build and Transfer Contract and Facility Agreement before 7 February 2018 (or such other date as agreed between the parties).

Prospect notes that it cannot give any assurances that these conditions will be met, although it believes significant progress has been made through extensive negotiations which have taken place under the Placement and Framework Agreement.

Term sheets for the Build and Transfer Contract and the Facility Agreement have been completed but are subject to definitive documents being negotiated on terms which are no less favourable to Prospect. Prospect and Sinomine have an obligation to use their best endeavours to negotiate the Build and Transfer Contract and Facility Agreement, but if the parties are unable to finalise and execute the agreements before 7 February 2018 (or such other date as agreed between the parties) the Placement and Framework Agreement may be terminated by either party.

Offtake Agreement

Prospect has entered into a conditional binding offtake agreement with Sinomine for the future sale of 6% Li₂O spodumene concentrate (**Spodumene**) and 4% Li₂O petalite concentrate (**Petalite**) from the Arcadia Lithium Project in Zimbabwe.

The offtake agreement is conditional upon Prospect obtaining all necessary regulatory approvals and on Prospect and Sinomine executing the Build and Transfer Contract and Facility Agreement before 7 February 2018 (or such other date as agreed between the parties). As noted above, term sheets for the Build and Transfer Contract and the Facility Agreement have been completed but are subject to definitive documents being negotiated on terms which are no less favourable to Prospect.

The offtake is for the supply of a total of 390,000 tonnes of Spodumene and 1,097,000 tonnes of Petalite over an expected seven-year term. This represents approximately one third of the estimated total volume of Spodumene and Petalite expected to be produced from the Arcadia Lithium Project. Pricing under the offtake agreement is calculated by reference to a rolling import price for lithium carbonate into China.

If Prospect constructs a proposed lithium chemicals plant at the Project, the offtake agreement allows Prospect to divert 50% of Petalite to the proposed lithium chemicals plant for conversion into lithium carbonate for sale to Sinomine.

Build and Transfer Contract

Prospect and Sinomine have agreed to use their best endeavours to negotiate in good faith a Build and Transfer Contract, under which Sinomine will be required to construct the Mine and associated plant and equipment.

A non-binding term sheet for the Build and Transfer Contract has been agreed and the final Build and Transfer Contract must be on terms no less favourable to Prospect than those contained in the term sheet.

The term sheet for the Build and Transfer Contract contains the following key terms:

- Sinomine will construct the Mine on a build and transfer basis and finance 100% of the cost of construction of the Mine;
- Prospect will have final sign off on the design of the Mine;
- Sinomine will transfer the Mine to Prospect upon completion and the Project reaching certain annualised production levels; and
- Upon transfer of the Mine to Prospect, Prospect must begin repaying the cost of the Mine from the offtake generated from the Mine.

The final terms of the Build and Transfer Contract will be based on the findings of the definitive feasibility study.

Facility Agreement

Prospect and Sinomine have also agreed to use their best endeavours to negotiate in good faith a Facility Agreement under which Prospect will repay Sinomine for the construction of the Mine.

A non-binding term sheet for the Facility Agreement has been agreed and the final Facility Agreement must be on terms no less favourable to Prospect than those contained in the term sheet.

The term sheet for the Facility Agreement contains the following key terms:

- Sinomine will finance the construction of the Mine and associated plant and equipment under the Build and Transfer Contract provided that Prospect agrees to repay the cost of the Build and Transfer Contract;
- Prospect must commence repayment of the cost of the Build and Transfer Contract upon the Mine reaching certain annualised production levels;
- Prospect will repay the cost of the Build and Transfer Contract in 36 equal instalments to Sinomine by way of set off against a portion of the amounts owed by Sinomine to Prospect under the Offtake Agreement; and
- Prospect may make early repayments or refinance the amount owed to Sinomine at any time without penalty.