



QUARTERLY ACTIVITIES REPORT

FOR THE QUARTER ENDED 31 DECEMBER 2021

Prospect Resources Ltd (ASX: PSC, FRA:5E8) (**Prospect** or **the Company**) is pleased to report on activities undertaken during the December 2021 quarter.

Summary

- Completion of Staged and Direct Optimised Feasibility Studies for Arcadia Lithium Project (**Arcadia**)
- Pilot plant continues to produce on-spec product and provide valuable metallurgical recovery data
- Acquisition of Step Aside Lithium Project
- Completion of equity raising via A\$18M placement (before costs) at A\$0.40 per share
- Executed binding agreements for the sale of Arcadia to Zhejiang Huayou Cobalt Co., Limited (**Huayou Cobalt**) for US\$377.8M:
 - Completion of transaction is subject to Prospect shareholder approval, relevant Chinese and Zimbabwean regulatory approvals and other conditions precedent
 - Subsequent to the quarter end, Prospect has made progress on the conditions precedent (see update below).
 - Expected completion of transaction late Q1 / early Q2 2022
- Prospect was debt free with a cash balance of A\$20M¹ at quarter end

Prospect Managing Director and CEO, Sam Hosack, commented:

“The transaction announced with Huayou Cobalt is the culmination of a process that generated significant inbound interest amongst potential partners for the Arcadia Lithium Project. The Board of Prospect believes that the transaction offers a highly attractive outcome for Prospect shareholders relative to the timing and execution risks attached to development and operation of Arcadia under either Prospect’s ownership or in joint venture, and unanimously recommends that Prospect shareholders vote in favour of the transaction at the Extraordinary General Meeting planned for 25 February 2022.”

¹ Cash balance excludes US\$20m deposit received under the announced transaction with Huayou Cobalt as described in ASX announcement dated 23 December 2021.

Project Development

Arcadia Staged and Direct Optimised Feasibility Studies

During the quarter, the Company released the “Staged” and “Direct” Optimised Feasibility Studies (OFS) for Arcadia. The studies were prepared by leading engineering consultants, Lycopodium, with assistance from Prospect and select external contributors. These two studies confirmed the strong technical and economic viability of Arcadia under both a dual-stage and single-stage development pathway to 2.4Mtpa throughput.

Table 1 below presents the key outcomes from both studies. For full OFS details, please refer to Prospect ASX announcements dated 11 October 2021 (*Arcadia Staged Optimised Feasibility Study*) and 14 December 2021 (*Arcadia Direct Optimised Feasibility Study*).

Table 1: Key Arcadia Direct and Staged OFS outcomes

ARCADIA OPTIMISED FEASIBILITY STUDY (DIRECT AND STAGE OFS): KEY OUTCOMES					
Key metric (100% project basis)	Unit	Direct OFS			Staged OFS
		High prices	Base prices	Low prices	
Price deck utilised					
Annual process throughput	Mtpa	2.4	2.4	2.4	2.4
Initial life-of-mine (LOM) (Ore Reserve)	years	18.3	18.3	18.3	20.0
Average head grade (Ore Reserve)	% Li ₂ O	1.19	1.19	1.19	1.19
Average production –spodumene	ktpa conc.	147	147	147	133
Average production – technical petalite	ktpa conc.	94	94	94	86
Average production – chemical petalite	ktpa conc.	24	24	24	22
Pre-production capital expenditure	US\$m	192	192	192	140
Stage 2 capital expenditure	US\$m	-	-	-	72
Sustaining capital expenditure	US\$m	36	36	36	39
Post tax investment to positive cash	US\$m	202	202	202	148
C1 cash operating cost	US\$/t conc.	369	357	345	378
All-In-Sustaining-Cost (AISC)	US\$/t conc.	376	364	353	386
LOM average SC6 reference price	US\$/t SC6	1,019	892	736	736
IRR (pre-tax, real basis, ungeared)	%	72	61	48	35
Pre-tax NPV_{10%} (real basis, ungeared)	US\$m	1,399	1,022	646	465
IRR (post-tax, real basis, ungeared)	%	71	60	47	34
Post-tax NPV_{10%} (real basis, ungeared)	US\$m	1,268	929	590	408
Average annual EBITDA (post-tax)	US\$m	232	175	118	97
Project net cashflow (post-tax)	US\$m	3,504	2,597	1,690	1,468
Payback period (from first production)	Years	3.0	3.3	3.6	5.4

Pilot Plant

The pilot plant operated throughout the quarter and a total of 2,236t of ore was treated through the DMS plant yielding 347t of technical grade petalite. The pilot plant optimisation program resulted in an improvement in petalite recoveries to over 55%.

A total of 79t of technical grade concentrate was dispatched to Sibelco during the quarter, with another 136t prepared for dispatch early January due to availability of suitable vessels. The balance of the product will be dispatched during the next quarter.

A second mining campaign was launched in December to provide additional ore for further optimisation test work and around 300t of product for export.

Step Aside Lithium Project

Prospect's wholly owned subsidiary, Promin Resource Holdings (Pte) Ltd, has acquired a potential high grade lithium deposit located approximately 8km north of Arcadia (**Step Aside**). The Step Aside claim comprises approximately 140 hectares and is located in the Harare Greenstone Belt, west of the Mashonganyika Fault. The potential of the area has been confirmed by positive regional stream and soil sample geochemistry results. Four mineralized pegmatites have been mapped from east to west within a meta-dolerite host rock. These mineralized pegmatites are all roughly parallel to each other, lying in a north-south orientation and have dip angles of 40-45° to the west.

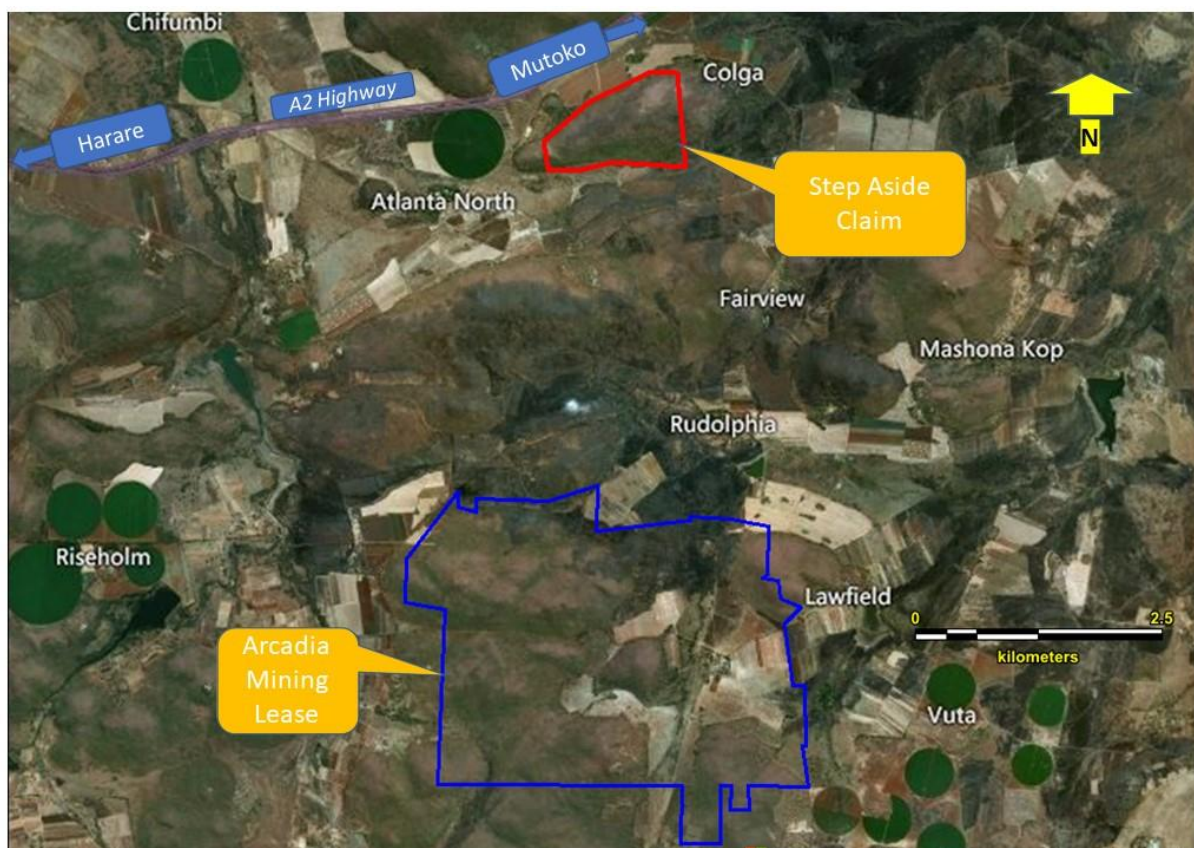


Figure 1: Locality Map of Step Aside, 8km north of Arcadia

Exploration program underway, with the commencement of rock chip sampling and if successful a trenching and drilling exercise to help with determining the sub-surface strike extensions. This will provide greater detail as to the thickness and strike length of any potential underlying pegmatite.

Chishanya Carbonatite Project

Following a rock chip sampling program to investigate the potential prospectivity of the Chishanya Carbonatite Project (**Chishanya**) for economic rare earth element concentrations, Prospect does not plan to undertake any further exploration activities on this project.

The knowledge gained at Chishanya has assisted the team in understanding the regional geology and Prospect is evaluating other early-stage projects in Zimbabwe for their prospectivity for rare earth elements.

Other Projects

The Prospect exploration team continue to develop a pipeline of prospective battery mineral targets both locally and within the region. The publicity around the transaction with Zhejiang Huayou Cobalt Co., Limited has resulted in an increase in opportunities being presented to the Prospect team. We look forward to a busy quarter.

Corporate

Binding agreements executed for sale of Arcadia to Huayou Cobalt

On 23 December 2021, Prospect announced that it had, through its 100% owned subsidiary Prospect Minerals Pte Ltd (**PMPL**), executed a binding Share Sale Agreement (**SSA**) with Huayou International Mining (Hong Kong) Limited (a subsidiary of Huayou Cobalt (**Huayou**), for the sale of its 87% shareholding in Prospect Lithium Zimbabwe (Pvt) Limited (**PLZ**), owner of the Arcadia lithium project (**Transaction**).

Huayou agreed to purchase PMPL's 87% shareholding in PLZ and associated intercompany loan for approximately US\$377.8M in upfront cash consideration. The Transaction represents the culmination of the strategic partnership process undertaken by Prospect since August 2021.

After careful evaluation, the Prospect Board of Directors, in conjunction with its financial and legal advisers, has formed the view that the sale of its shareholding in PLZ to Huayou on the terms and conditions of the SSA delivers the most attractive risk-adjusted, post-tax value outcome for Prospect shareholders, compared to other proposed development options for Arcadia under either Prospect or joint venture ownership.

Conditions precedent update

Completion of the Transaction is subject to several conditions precedent being satisfied or waived, including relevant Chinese and Zimbabwean regulatory approvals, termination of an existing offtake arrangement and Prospect shareholder approval.

In relation to these conditions precedent, Prospect provides the following update:

Chinese regulatory approvals

Huayou has notified Prospect that it has obtained the outbound investment certificate for the Transaction from the Ministry of Commerce of the People's Republic of China (**MOFCOM**) required for completion of the Transaction.

Application for filing and registration by the National Development and Reform Commission (**NDRC**) has been submitted by Huayou. Once completing the filing and registration by NDRC, Huayou will apply for the relevant exchange registrations from a qualified bank supervised by the State Administration of Foreign Exchange. These confirmations are expected to be received in due course.

Existing offtake arrangements

Prospect has executed a Deed of Termination and Release (**Termination Deed**) with Sinomine Resource (Hong Kong) International Trading Co. Limited (**Sinomine**) with respect to the offtake and marketing arrangements between Prospect, PLZ and Sinomine (**Offtake Agreement**). The terms of the Termination Deed take effect upon completion of the Transaction. The effect will be that the Offtake Agreement is terminated and Prospect, PLZ and Sinomine are released from their respective obligations, and Sinomine will receive an amount of US\$8 million as required under the Termination Deed.

The terms of the Termination Deed only take effect in the event of completion of the Transaction. If the Transaction is not completed, the terms of the Termination Deed do not take effect, and the status quo prevails.

Termination of the Offtake Agreement is a condition precedent to completion of the Transaction. The parties to the Transaction have confirmed that this condition precedent will have been satisfied once the Termination Deed takes effect, and Huayou has confirmed to Prospect that it will not rely on this condition precedent as a reason not to proceed to completion if all other conditions precedent have been satisfied or waived.

Prospect shareholder approval

Prospect has obtained a 2 week extension (from 8 weeks after the SSA to 10 weeks) of the time to hold an extraordinary general meeting of its shareholders to consider and vote for the Transaction. On 25 January 2022, Prospect released a Notice of Extraordinary General Meeting for a meeting of Prospect shareholders scheduled for 25 February 2022. The Board of Prospect unanimously recommends that Prospect shareholders vote in favour of the Transaction.

For further information, please refer to Prospect ASX announcements dated 23 December 2021, *Prospect sells its interest in Arcadia for US\$378M*, 18 January 2022, *Conditions Precedent Update*, and 25 January 2022, *Notice of Extraordinary General Meeting and Investor Presentation*.

Subject to all conditions precedent being satisfied, completion of the Transaction is expected to occur in late Q1 / early Q2 2022.

Equity raising and cash balance

On 29 October 2021, Prospect announced the placement of approximately 45 million new shares to institutional and sophisticated investors at an issue price of A\$0.40 per share to raise A\$18M in new equity (before costs). The Principle use of funds was to accelerate engineering studies, continue to operate the pilot plant and to progress the partnership process.

Prospect finished the quarter with a cash balance of approximately A\$20M. This balance excludes the US\$20M deposit received under the Transaction (see Prospect ASX announcement dated 23 December 2021).

The Company confirms there are 428,523,535 shares on issue and 39,750,000 options outstanding. All Director and Employee options totalling 26,250,000 have now vested.

Appendix 5B – Related Party Payments

During the quarter, the Company made payments of A\$275,000 to related parties and their associates. These payments relate to director fees and superannuation.

This release was authorised by the Sam Hosack, Managing Director of Prospect Resources Ltd.

For further information, please contact:

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About Prospect Resources Limited (ASX: PSC, FRA:5E8)

Prospect Resources Limited (ASX: PSC, FRA:5E8) is an ASX listed lithium company based in Perth with operations in Zimbabwe. Prospect's flagship asset is the Arcadia Lithium Project located on the outskirts of Harare. Arcadia possesses a world-class hard rock lithium resource and is one of the most advanced lithium projects globally.

About Lithium

Lithium is a soft silvery-white metal which is highly reactive and does not occur in nature in its elemental form. In nature it occurs as compounds within hard rock deposits (such as Arcadia) and salt brines. Lithium and its chemical compounds have a wide range of industrial applications resulting in numerous chemical and technical uses. Lithium has the highest electrochemical potential of all metals, a key property in its role in lithium-ion batteries.

Caution Regarding Forward-Looking Information

This announcement may contain some references to forecasts, estimates, assumptions and other forward-looking statements. Although the Company believes that its expectations, estimates and forecast outcomes are based on reasonable assumptions, it can give no assurance that they will be achieved. They may be affected by a variety of variables and changes in underlying assumptions that are subject to risk factors associated with the nature of the business, which could cause actual results to differ materially from those expressed herein. All references to dollars (\$) and cents in this announcement are in United States currency, unless otherwise stated.

Investors should make and rely upon their own enquiries before deciding to acquire or deal in the Company's securities.

APPENDIX A: PROSPECT TENEMENT SCHEDULE

Prospect Resources Limited has interests in tenements via the following companies:

- 1) Prospect Lithium Zimbabwe (Pvt) Limited ("PLZ") – Arcadia Project
- 2) Hawkmoth Mining and Exploration (Private) Limited ("Hawkmoth") – Chishanya Project
- 3) Promin Resource Holdings (Pte) Ltd ("Promin") – Step Aside Project

Tenement Type & Number	Tenement Name	Country	Project	Registered Company Name	% Held at End of Quarter	% Acquired During Quarter	% Disposed During Quarter
ML 38	Arcadia Lease	Zimbabwe	Arcadia	PLZ	87% (i)		
ME96BM	Arcadia JV	Zimbabwe	Arcadia	PLZ	87% (i)		
ME97BM	Arcadia TK	Zimbabwe	Arcadia	PLZ	87% (i)		
ME203BM	Arcadia B2	Zimbabwe	Arcadia	PLZ	87% (i)		
ME205BM	Arcadia B4	Zimbabwe	Arcadia	PLZ	87% (i)		
ME219BM	Thapelo	Zimbabwe	Arcadia	PLZ	87% (i)		
ME220BM	Thapelo A	Zimbabwe	Arcadia	PLZ	87% (i)		
ME221BM	Thapelo B	Zimbabwe	Arcadia	PLZ	87% (i)		
ME222BM	Thapelo C	Zimbabwe	Arcadia	PLZ	87% (i)		
ME223BM	Thapelo D	Zimbabwe	Arcadia	PLZ	87% (i)		
ME224BM	Thapelo E	Zimbabwe	Arcadia	PLZ	87% (i)		
ME1245BM	Dudolphia	Zimbabwe	Arcadia	PLZ	87% (i)		
32126	Arcadia 52	Zimbabwe	Arcadia	PLZ	87% (i)		
32127	Arcadia 53	Zimbabwe	Arcadia	PLZ	87% (i)		
32128	Arcadia 54	Zimbabwe	Arcadia	PLZ	87% (i)		
32129	Arcadia 55	Zimbabwe	Arcadia	PLZ	87% (i)		
32130	Arcadia 56	Zimbabwe	Arcadia	PLZ	87% (i)		
32131	Arcadia 57	Zimbabwe	Arcadia	PLZ	87% (i)		
32132	Arcadia 58	Zimbabwe	Arcadia	PLZ	87% (i)		
32133	Arcadia 59	Zimbabwe	Arcadia	PLZ	87% (i)		
ME284G	Best	Zimbabwe	Arcadia	PLZ	87% (i)		
ME823BM	Pros	Zimbabwe	Arcadia	PLZ	87% (i)		
ME106BM	Arcadia 2V	Zimbabwe	Arcadia	PLZ	87% (i)		
ME434G	Kamba	Zimbabwe	Arcadia	PLZ	87% (i)		
ME145	Old Timer 30	Zimbabwe	Arcadia	PLZ	87% (i)		
ME146	Old Timer 31	Zimbabwe	Arcadia	PLZ	87% (i)		
ME84	Old Timer 11	Zimbabwe	Arcadia	PLZ	87% (i)		
ME 139 G	Arcadia 139	Zimbabwe	Arcadia	PLZ	87% (i)		
ME 140 G	Arcadia 140	Zimbabwe	Arcadia	PLZ	87% (i)		
ME96BM	Arcadia JV	Zimbabwe	Arcadia	PLZ	87% (i)		

ME97BM	Arcadia TK	Zimbabwe	Arcadia	PLZ	87% (i)		
ME19948BM	Step Aside	Zimbabwe	Step Aside	Promin	100%	100%	
M2873 BM	Penga 9	Zimbabwe	Chishanya	Hawkmoth	70%		
M2874 BM	Penga 10	Zimbabwe	Chishanya	Hawkmoth	70%		
M2875 BM	Penga 11	Zimbabwe	Chishanya	Hawkmoth	70%		
M2876 BM	Penga 12	Zimbabwe	Chishanya	Hawkmoth	70%		

- (i) Refer to announcement 23 December 2021 where the Company executed binding agreements for the sale of its interest in the Arcadia Lithium Project

Appendix 5B

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

PROSPECT RESOURCES LIMITED

ABN

30 124 354 329

Quarter ended ("current quarter")

31 December 2021

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	236	236
1.2	Payments for		
	(a) exploration & evaluation (if expensed)	(45)	(245)
	(b) development		
	(c) production		
	(d) staff costs	(294)	(785)
	(e) administration and corporate costs	(741)	(1,265)
1.3	Dividends received (see note 3)		
1.4	Interest received		
1.5	Interest and other costs of finance paid	3	5
1.6	Income taxes paid		
1.7	Government grants and tax incentives		
1.8	Other (provide details if material)		
1.9	Net cash from / (used in) operating activities	(841)	(2,054)
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities		
	(b) tenements	(158)	(158)
	(c) property, plant and equipment	(59)	(60)
	(d) exploration & evaluation (if capitalised) development expenditure	(1,775)	(2,607)
	(e) investments		(1,187)
	(f) other non-current assets		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities		1,041
	(b) tenements		
	(c) property, plant and equipment	16	16
	(d) investments		
	(e) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
	Net proceeds from assets held for sale		
	Cash flows for loans to minority interest		
	Interest received		
2.6	Net cash from / (used in) investing activities	(1,976)	(2,955)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	18,000	18,000
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(825)	(825)
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities	17,175	17,175

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	5,701	7,877
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(841)	(2,054)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,976)	(2,955)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	17,175	17,175
4.5	Effect of movement in exchange rates on cash held	(1)	15
4.6	Cash and cash equivalents at end of period	20,058	20,058

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	19,647	4,650
5.2	Call deposits	0	0
5.3	Bank overdrafts	0	0
5.4	Other (provide details)		
	US dollars at bank	398	1,028
	Zimbabwe dollars at bank	5	8
	Petty cash	8	15
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	20,058	5,701

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
275
0

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Payments include director fees and superannuation.

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	0	0
7.2	Credit standby arrangements	0	0
7.3	Other (please specify)	0	0
7.4	Total financing facilities	0	0
7.5	Unused financing facilities available at quarter end	0	
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8. Estimated cash available for future operating activities		\$A'000
8.1	Net cash from / (used in) operating activities (Item 1.9)	(841)
8.2	Capitalised exploration & evaluation (Item 2.1(d))	(1,976)
8.3	Total relevant outgoings (Item 8.1 + Item 8.2)	2,817
8.4	Cash and cash equivalents at quarter end (Item 4.6)	20,058
8.5	Unused finance facilities available at quarter end (Item 7.5)	0
8.6	Total available funding (Item 8.4 + Item 8.5)	20,058
8.7	Estimated quarters of funding available (Item 8.6 divided by Item 8.3)	7.1
8.8	If Item 8.7 is less than 2 quarters, please provide answers to the following questions:	
1.	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	Answer: N/a	
2.	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	Answer:	
3.	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	Answer:	

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 28 January 2022

Authorised by: Sam Hosack
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.