

Prospect Resources acquires Option on Chilogali Graphite Project, Southeast Tanzania.

HIGHLIGHTS

- Option acquired on 140sq km of highly prospective ground.
- Wide graphitic bands outcrop over 4km of strike, with geophysical evidence of further extensions.
- Initial trenching results indicate widths of up to 31 metres and grades of up to 24.9% Total Graphitic Carbon.
- Initial trenching has produced a weighted average grade over 8 trenches of 11.5% Total Graphitic Carbon over 15.8m.
- Peak grade returned 31.8% Total Graphitic Carbon.
- Electromagnetic survey delineated 13 as yet un-tested conductive anomalies along strike.

Southern African focused mining and exploration company Prospect Resources Limited (ASX: PSC) (Prospect, the Company) is pleased to announce it has entered into a 3 month option agreement with a right to farm-in to the Chilogali Graphite Project with ASAB Resources (Tanzania) Limited (**Option Agreement**). Under the terms of the Option Agreement, Prospect has the right to earn a 90% interest in the Chilogali Graphite Project and has a first right of refusal to acquire the remaining 10%. Further details are provided below.

This Option Agreement forms part of Prospect's previously announced strategy of acquiring and developing a diversity of mineral assets in different countries within Southern Africa (our area of expertise). Prospect's current mineral assets include more than 10 historic gold mines in three gold camps and a significant phosphate/rare earth carbonatite in Southern Africa.

Table 1: Average Total Graphitic Carbon (TGC) results from earlier Trenching

Trench Number	From	To	TGC%	Interval (m)	Intercept
NTR0001	9	42	11.9	33	33m@11.9%
	138	156	11	18	18m@11%
NTR0002	9	40	14.84	31	31m@14.84%
NTR0003	13	48	12.5	35	35m@12.5%
	55	62	8.4	7	7m@8.4%
	129	130	9.6	1	1m@9.6%
NTR0004	40	53	5.9	13	13m@5.9%
	66	77	20	11	11m@20%
NTR0005	11.8	28.5	9.9	16.7	16.7m@9.9%
	55	84	10.47	29	29m@10.47%
NTR0006	90	111.8	6.75	21.8	21.8m@6.75%
NTR0007	8.5	10.7	9.6	2.2	2.2m@9.6%
	73.3	74.6	10.1	1.3	1.3m@10.1%
NTR0008	9.9	24	10.84	14.1	14.1m@10.84%
	66.1	69.3	24.9	3.2	3.2m@24.9%

Project Location

The Chiliogali Graphite Project is located some 180km west of Mtwara Port in Southeastern Tanzania. The project is easily accessible from the well maintained main Masai – Lindi- Mtwara road (Figure 1).

Mtwara which is a city of 80,000 people has a deep-water port where large container ships can berth. The town long neglected since the disastrous groundnut scheme of the early '50s is undergoing a renaissance due to offshore oil and gas exploration.

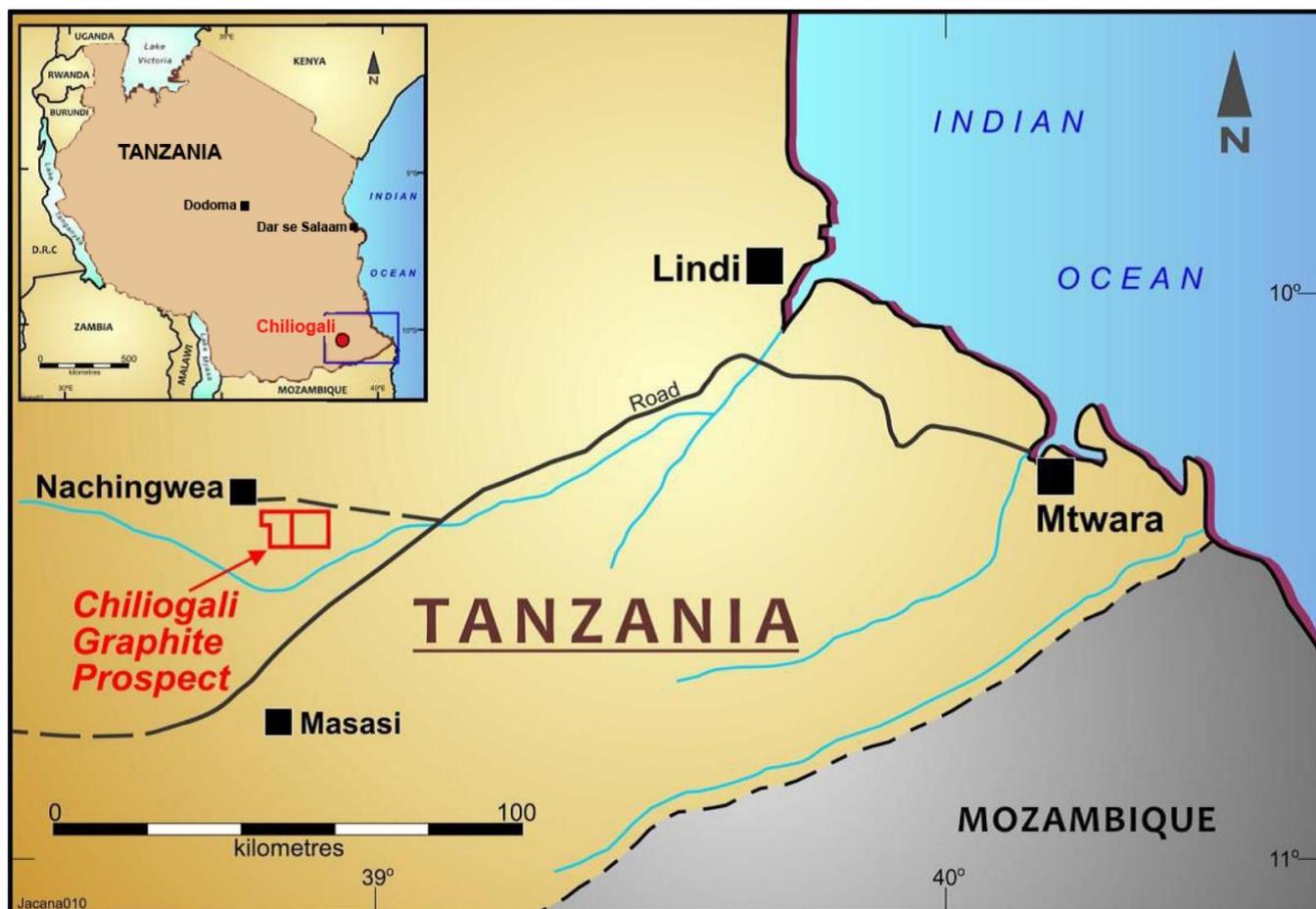


Figure 1: Location of the Chiliogali Graphite Project in South Eastern Tanzania

The Chiliogali Graphite Project lies close to the town of Nachingwea, some 180km west of the major port of Mtwara.

Regional Geological Setting

Regionally the Chiliogali Graphite Project lies within the Proterozoic Age Usagaran system, part of the Mozambique Belt. The rocks comprise high grade (amphibolite) metamorphic rocks of both sedimentary and igneous origin. These range from marbles, amphibolites, mica and kyanite schists, hornblende, biotite and garnet gneisses, quartzites and granulites, as well as graphitic schists and gneisses.

Rocks in the Usagaran System of Tanzania are well known for hosting gold, nickel, copper, different gemstones such as tourmaline, tanzanite, as well as high grade graphite deposits.

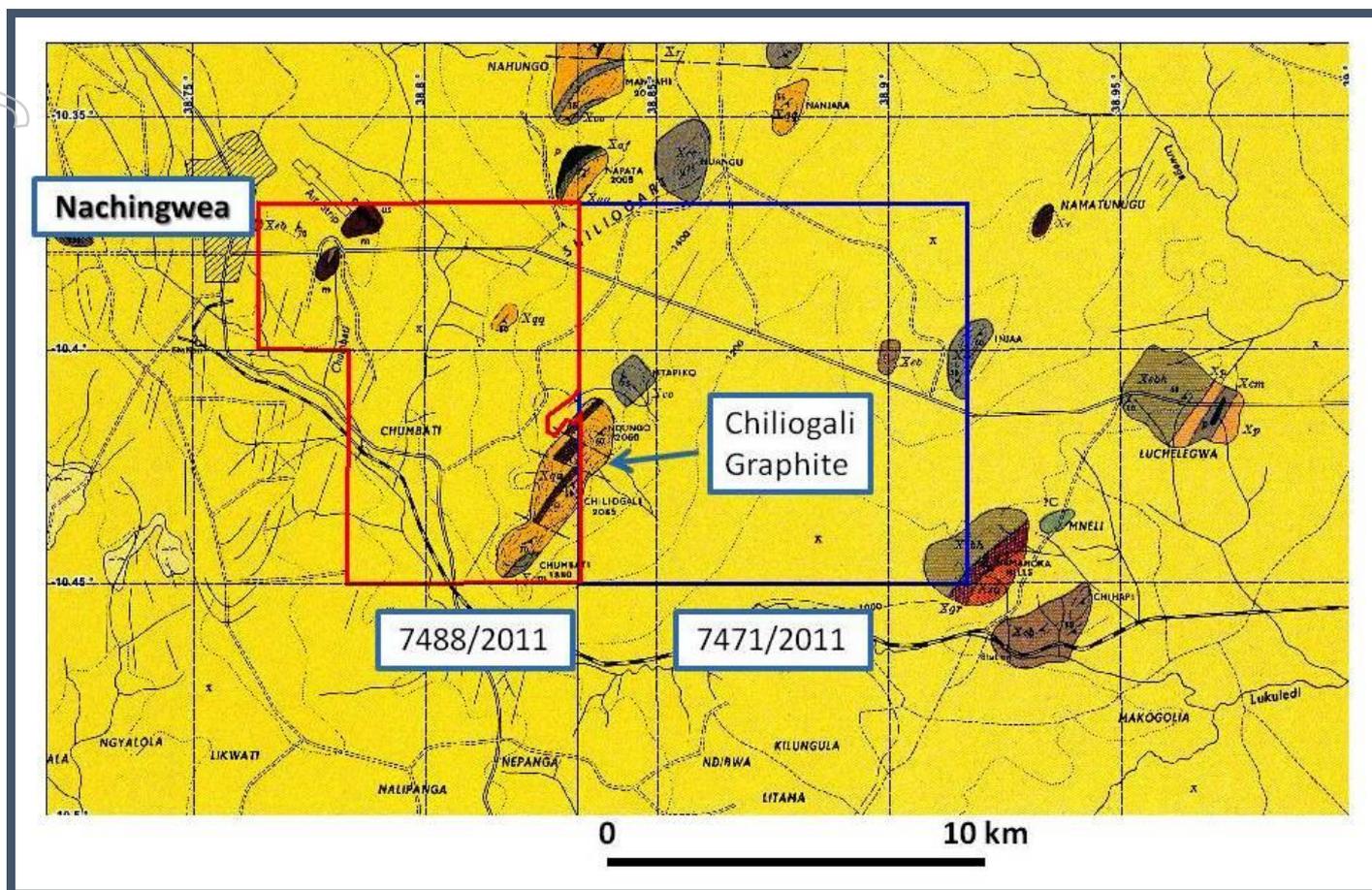


Figure 2: Location of the two Prospecting Licences over the Chiliogali Graphite Project. An area of approximately 140 sq km of largely flat lying soil covered terrain. The Chilungula Hills which are composed of graphitic quartz schists extend for 4km of southwest- northeast strike. Initial geophysical work suggests that graphitic bands continue under the soil cover to the northeast and southwest.

Local Geology and Mineralisation Model

The graphite present at the Chiliogali Graphite Project is hosted in quartzites, gneisses and schists. It is believed that these host rocks are derived from the same lithological unit, which differs only in metamorphic grade. All units in the area have been affected by northeast trending folding and by northwest-southeast and east-west trending faults (Figure 2). It is likely that the graphite formed by the high-grade metamorphism of sedimentary organic matter.

Previous Work

- The deposit was first discovered in the late 1950s, when a now disused railway line was built to service the long-defunct groundnut scheme. The geological survey pitted and trenched part of the deposit in 1959.
- Sampling results from 8 trenches are summarised in Table 1 and Figure 3. An overall weighted grade of 11.5% TGC over 15.8m was returned, with a peak grade of 31.8%. For details of geology and trenching results see also Appendix A.
- Mapping of the Chilangula Hills, with 33 grab samples collected and assayed at Bureau Veritas. Average grade of 15.5% TGC was returned, with a peak value of 28.8% (Appendix B).
- PGC Geophysics of Perth undertook a successful ground EM34 (frequency domain electromagnetic) survey. From a total of 100 line kms, 13 targets have been identified along strike of the trenches.

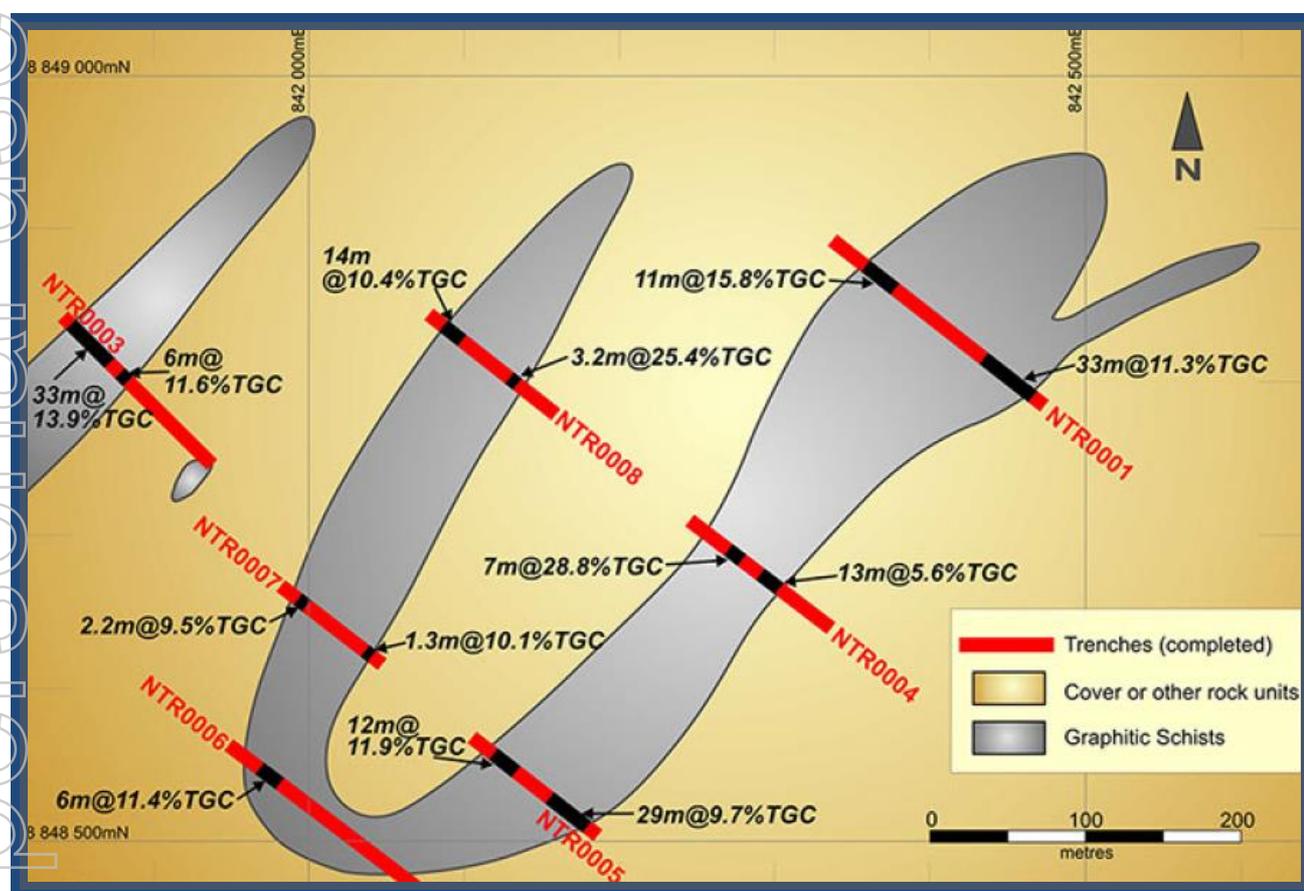


Figure 3: Positions of the Jacana Trenches, with Graphite Intersections

Information Sources

The geological information and Exploration Results in this announcement were sourced from an announcement released to ASX by Syrah Resources on 27th August 2014 entitled “Exploration Update – Tanzanian Projects”, which included a Table 1 with Appendix 9.

Conclusion

- The weighted average grade of > 11.5% TGC over 15.8m generated by an earlier trenching exercise is very encouraging.
- Though only limited metallurgical test work has been done to date, indications are that concentrates of >98% carbon are possible.
- Through a staged trenching and drilling programme carried out to JORC Code 2012 reporting standards, it is believed that an economic medium to coarse grained graphite resource can be defined.

Future Plans

- Task PGC Geophysics with completing the final EM interpretation and target delineation exercise.
- Analyse the 30 un-assayed bulk samples, and do selected metallurgical test work.
- Excavate approximate 20 trenches as first phase work.
- Assuming results of Phase 1 (above) are successful, initiate RC drilling programme to generate maiden JORC Code reportable Mineral Resource.
- Identify development partners and off-take partners in parallel with the Company's exploration programme.

ENDS

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Competent Person's Statement

The information in this announcement that relates to Exploration Results, 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 KEY TERMS OF THE TERMS SHEET

Prospect Resources Limited (ASX: PSC) (**Company**) has entered into a binding terms sheet (**Terms Sheet**) with ASAB Resources (Tanzania) Limited (a company incorporated in Tanzania) (**ASAB**) pursuant to which ASAB has granted the Company an exclusive option to acquire an initial undivided 51% interest in Tanzanian Prospecting Licence number 7488/2011 and 7471/2011 (**Licences**) and the sole and exclusive right to earn an additional undivided 39% interest in the Licences.

The key terms of the Terms Sheet are as follows:

- (a) (**Option**): ASAB has granted to the Company an exclusive 90 day option acquire an initial undivided 51% interest the Licences and the sole and exclusive right to earn an additional undivided 39% interest in the Licences (**Option**).
- (b) (**Option Fee**): The Company must pay ASAB a non-refundable Option fee of US\$30,000.
- (c) (**Initial Interest**): Subject to the valid exercise of the Option and the Company either, at the sole election of ASAB:
- (i) paying to ASAB US\$250,000 cash; or
 - (ii) subject to compliance with the ASX Listing Rules and the *Corporations Act 2001* (Cth) (**Corporations Act**), issuing ASAB with fully paid ordinary shares in the capital of the Company (**Shares**) to the value of US\$250,000 at a deemed issue price equal to the 5 trading day volume weighted average price of Shares trading on the ASX ending on the day immediately prior to the date of the Option exercise notice,
- the Company will acquire an undivided 51% interest in the Licences (**Initial Interest**).
- (d) (**Formation of Joint Venture**): ASAB and the Company shall be deemed to have formed an unincorporated joint venture immediately upon the Company acquiring the Initial Interest.
- (e) (**Stage 2 Interest**): Upon the Company acquiring the Initial Interest, the Company shall be deemed to have elected to earn an additional 19% interest in the Licences (being a total 70% interest) (**Stage 2 Interest**) by:
- (i) sole funding joint venture expenditure of at least US\$500,000 within the period that is 12 months from the date upon which the Company acquires the Initial Interest (or such longer period as required due to force majeure)(**Stage 2 Expenditure**); and
 - (ii) upon satisfaction of the Stage 2 Expenditure, either, at the sole election of the Company:
 - (A) paying to ASAB US\$250,000 cash; or
 - (B) subject to compliance with the ASX Listing Rules and the Corporations Act, issuing ASAB with Shares to the value of US\$250,000 at a deemed issue price equal to the 5 trading day volume weighted average price of Shares trading on the ASX ending on the day immediately prior to the date of the Option exercise notice, (**Stage 2 Milestone Payment**).

If the Company, having committed to sole fund the Stage 2 Expenditure, fails to sole fund the Stage 2 Expenditure or fails to pay the Stage 2 Milestone Payment, the Company will have no further right to earn any interest in the Licences, will forfeit to ASAB any existing interest in the Licences and will be deemed to have withdrawn from the joint venture.

- (e) **(Stage 3 Interest):** Subject to the Company earning the Stage 2 Interest, the Company may within 20 business days of the date on which it earns the Stage 2 Interest elect to earn an additional 20% interest in the Licences (being a total 90% interest) **(Stage 3 Interest)** by:
- (i) sole funding joint venture expenditure of at least US\$500,000 within the period that is 12 months from the date upon which the Company makes the election (or such longer period as required due to force majeure) **(Stage 3 Expenditure)**; and
 - (ii) upon satisfaction of the Stage 3 Expenditure, either, at the sole election of the Company:
 - (A) paying to ASAB US\$250,000 cash; or
 - (B) subject to compliance with the ASX Listing Rules and the Corporations Act, issuing ASAB with Shares to the value of US\$250,000 at a deemed issue price equal to the 5 trading day volume weighted average price of Shares trading on the ASX ending on the day immediately prior to the date of the Option exercise notice, **(Stage 3 Milestone Payment)**.

If:

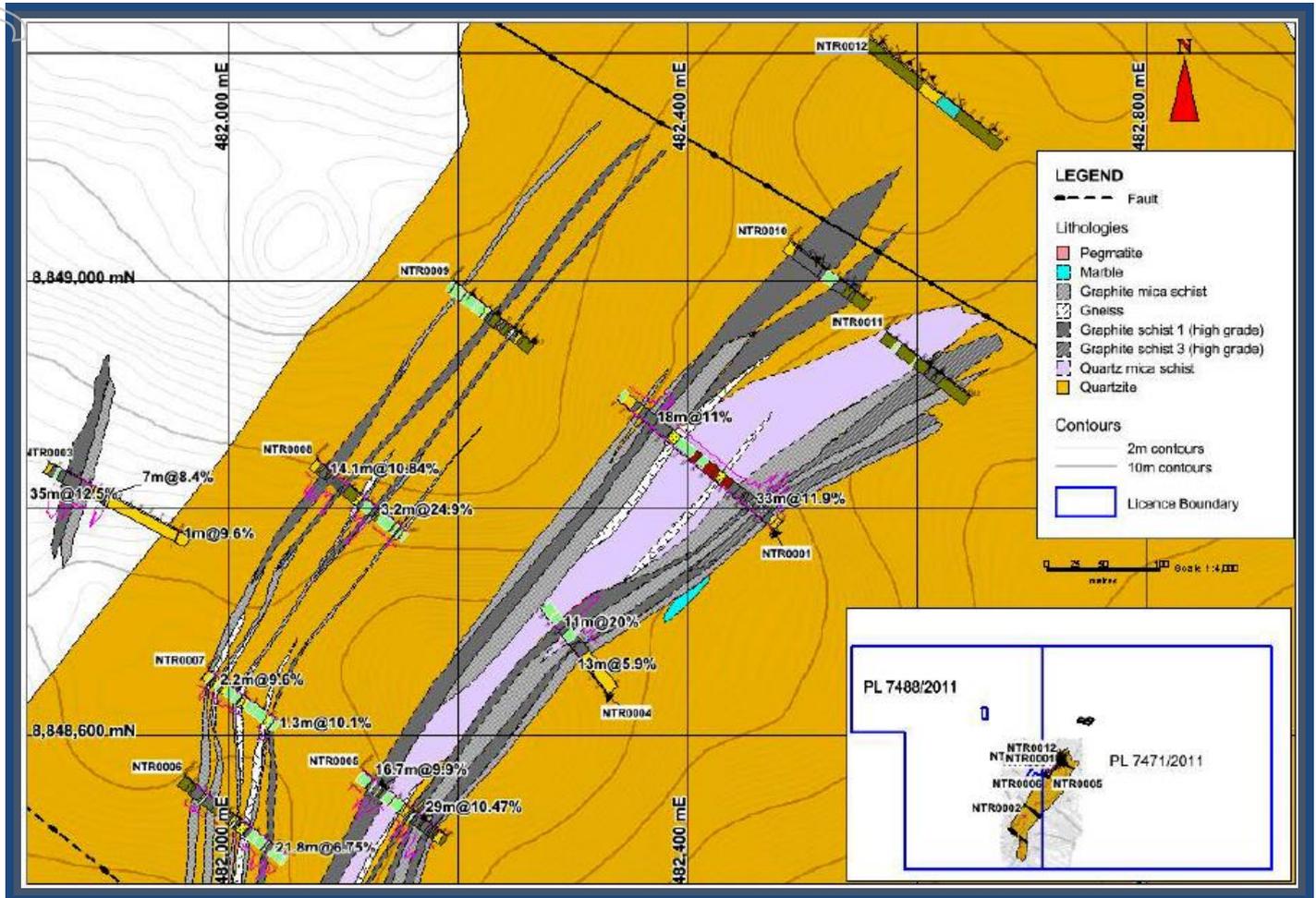
- (i) the Company does not elect to earn the Stage 3 Interest; or
- (ii) having elected to sole fund the Stage 3 Expenditure, fails to sole fund the Stage 3 Expenditure or fails to pay the Stage 3 Milestone Payment,

the Company will have no further right to earn any interest in the Licences, will forfeit to ASAB any existing interest in the Licences and will be deemed to have withdrawn from the joint venture.

- (f) **(First Right of Refusal):** If, after the Company earns the Stage 3 Interest, ASAB wishes to sell, assign or otherwise dispose of its remaining 10% interest in the Licences to a third party, it must first irrevocably offer the remaining interest to the Company on terms no less favourable than those being offered to that third party.
- (g) **(Definitive Agreement):** The parties agree to enter into a full form legally binding farm-in and joint venture agreement to govern the joint venture and their relationship, which is on terms consistent with those contained in this Terms Sheet.
- (h) **(Withdrawal):** The Company may withdraw from the joint venture at any time by giving written notice to ASAB. Upon a withdrawal from the joint venture, unless otherwise provided in the Terms Sheet, the withdrawing party will absolutely forfeit to the other party all of its interest in the Licences and the withdrawing party will be released from all future obligations relating to the joint venture.

Where the Company withdraws within 3 months of the annual rental payment date for a Licence, the Company must pay ASAB an amount equal to the next year's rental for that Licence.

APPENDIX A - Detailed Trenching



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APPENDIX B – Earlier Grab Sample Results

Sample_Id	Eastings	Northings	Elevation	TGC%
J0000501	481246	8847004	454	22.1
J0000502	481220	8846964	465	23.5
J0000503	481115	8846898	463	4.7
J0000504	481130	8846837	471	21.2
J0000505	481126	8846808	481	21.4
J0000506	480937	8846919	499	14.7
J0000507	481884	8848837	536	23.2
J0000508	481922	8848742	561	12.9
J0000509	481925	8848730	566	20.4
J0000510	482386	8848767	589	24.2
J0000511	482367	8848869	565	18.7
J0000513	482616	8848806	528	24.9
J0000515	482146	8848950	525	28.6
J0000519	482072	8848730	560	8.25
J0000520	482928	8848080	429	6.65
J0000522	481981	8848598	564	8.3
J0000523	482092	8848540	560	11.6

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