



ASX ANNOUNCEMENT
25 January 2022

Letter to Shareholders and Proxy Form in relation to Extraordinary General Meeting

Prospect Resources Limited (ASX: PSC, FRA:5E8) (**Prospect** or **the Company**) is pleased to enclose the following documents in relation to its upcoming Extraordinary General Meeting:

- Letter to Shareholders;
- Notice of Extraordinary General Meeting; and
- Proxy Form.

Authorised for release by the Board of Directors.

For further information, please contact:

Sam Hosack
Managing Director
shosack@prospectresources.com.au

Nicholas Rathjen
Head of Corporate Development
nrathjen@prospectresources.com.au



25 January 2022

Dear Shareholder,

Extraordinary General Meeting – Letter to Shareholders

Prospect Resources Limited (ASX: PSC) (“Prospect Resources Limited” or the “Company”) advises that an Extraordinary General Meeting (“EGM”) of Shareholders will be held at 10.00AM AWST on 25 February 2022 at Level 2, 40 Kings Park Road, West Perth 6005.

In accordance with the *Treasury Laws Amendment (2021 Measures No.1) Act 2021* which came into force on 14 August 2021, the Company will not be dispatching physical copies of the Notice of Meeting (“Notice”) to Shareholders. The Notice is being made available to Shareholders electronically and can be viewed and downloaded online from the Company’s website at:
<https://www.prospectresources.com.au/announcements>.

Given the uncertainty surrounding the COVID-19 pandemic, by the time this letter is received by Shareholders, circumstances may have changed but the Notice is given based on circumstances as at the date of this letter. Accordingly, should circumstances change, the Company will make an announcement on the ASX market announcements platform and on the Company’s website at <https://www.prospectresources.com.au/announcements>.

Shareholders are urged to monitor the ASX announcements platform and the Company’s website.

Your vote is important

The business of the EGM affects your shareholding, and your vote is important.

To vote in person, attend the EGM on the date and at the place set out above.

To vote by proxy please use one of the following methods:

Online	Lodge the Proxy Form online at https://investor.automic.com.au/#/loginsah by following the instructions: Log into the Automic website using the holding details as shown on the Proxy Form. Click on ‘View Meetings’ – ‘Vote’. To use the online lodgement facility, Shareholders will need their holder number (Securityholder Reference Number (SRN) or Holder Identification Number (HIN)) as shown on the front of the Proxy Form.
By post	Completing the enclosed Proxy Form and posting it to: Automic, GPO Box 5193, Sydney NSW 2001
By hand	Completing the enclosed Proxy Form and delivering it by hand to: Automic, Level 5, 126 Phillip Street, Sydney NSW 2000

Your Proxy instruction must be received not later than 48 hours before the commencement of the Meeting. **Proxy Forms received later than this time will be invalid.**

The Chair intends to vote all open proxies in favour of the resolution, where permitted.

Yours Faithfully,



Sam Hosack
Managing Director



Prospect Resources

PROSPECT RESOURCES LIMITED

ACN 124 354 329

Notice of Extraordinary General Meeting

Explanatory Memorandum

& Proxy Form

FOR THE PROPOSED SALE OF THE COMPANY'S INTEREST IN THE ARCADIA LITHIUM PROJECT FOR APPROXIMATELY US\$377.8 MILLION

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU VOTE IN FAVOUR OF THE RESOLUTION TO BE CONSIDERED AT THE EGM

Time of the meeting: 10.00am (Perth time)

Date of the meeting: Friday, 25 February 2022

Place of the meeting: Level 2, 40 Kings Park Road, West Perth, Western Australia 6005

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting. Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on +61 405 524 960.

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Important Information for Shareholders about the EGM

Given the uncertainty surrounding the COVID-19 pandemic, by the time this Notice of Meeting is received by Shareholders, circumstances may have changed, however, this Notice of Meeting is given based on circumstances as at 25 January 2022.

Accordingly, should circumstances change, the Company will make an announcement on the ASX market announcements platform and on the Company's website at <https://www.prospectresources.com.au/announcements>. Shareholders are urged to monitor the ASX announcements platform and the Company's website.

Date, time and place

The Extraordinary General Meeting of the Shareholders to which this Notice of Meeting relates will be held at 10.00am (Perth time) on Friday, 25 February 2022 at Level 2, 40 Kings Park Road, West Perth, Western Australia 6005.

Your vote is important

The business of the Extraordinary General Meeting affects your shareholding and your vote is important.

Voting in person

To vote in person, attend the Extraordinary General Meeting on the date and at the time and place set out above.

Voting by proxy

To vote by proxy, please use one of the following methods:

Online	Lodge the Proxy Form online at https://investor.automic.com.au/#/loginsah by following the instructions: Login to the Automic website using the holding details as shown on the Proxy Form. Click on 'View Meetings' – 'Vote'. To use the online lodgement facility, Shareholders will need their holder number (Securityholder Reference Number (SRN) or Holder Identification Number (HIN)) as shown on the front of the Proxy Form. For further information on the online proxy lodgement process please see the Online Proxy Lodgement Guide at https://www.automicgroup.com.au/virtualagms/
By post	Automic, GPO Box 5193, Sydney NSW 2001
By hand	Automic, Level 5, 126 Phillip Street, Sydney NSW 2000

Your Proxy Form must be received not later than 48 hours before the commencement of the Meeting.
Proxy Forms received later than this time will be invalid.

Power of attorney

If the Proxy Form is signed under a power of attorney on behalf of a Shareholder, then the attorney must make sure that either the original power of attorney or a certified copy is lodged with the Proxy Form, unless the power of attorney has already provided it to the Share Registry.

Corporate representatives

If a representative of a corporate Shareholder or a corporate proxy will be attending the Meeting, the representative should bring to the Meeting adequate evidence of their appointment, unless this has previously been provided to the Share Registry.

Defined terms

Capitalised terms used in this Notice have the same meanings set out in the Glossary in the Explanatory Memorandum attached to this Notice, unless otherwise defined.

Responsibility for this Notice

Neither ASX nor any of its officers take any responsibility for the content of this Notice of Meeting and Explanatory Memorandum.

Letter from the Chairman

Dear Fellow Shareholders

On 23 December 2021, Prospect Resources Limited (**Prospect** or the **Company**) announced the proposed sale of its 87% interest in the Arcadia Lithium Project (**Arcadia** or **Arcadia Project**) and associated intercompany loan to a subsidiary of a world-class counterparty, new energy lithium-ion battery material producer, Zhejiang Huayou Cobalt Co., Limited (**Huayou Cobalt**), for approximately US\$377.8 million in upfront cash consideration (**Purchase Price**).

The Board of Prospect believes this proposed transaction (**Proposed Transaction**) to be a highly attractive outcome for Prospect Shareholders, relative to the risks associated with developing and operating the Arcadia Lithium Project, with the Purchase Price (before Zimbabwe capital gains tax and transaction costs) equivalent to approximately \$1.23 per Prospect Share (undiluted) and \$1.13 per Prospect Share (fully diluted)¹.

Subject to Completion of the Proposed Transaction, Prospect intends to distribute the bulk of the net sale proceeds (after Zimbabwe capital gains tax and transaction costs) to Shareholders.

Prospect currently estimates this distribution will be in the range of \$430 million to \$450 million, or between approximately \$0.92 to \$0.96 per Share (fully diluted)² (**Proposed Distribution**) and will be paid as an unfranked dividend and equal capital reduction or share buy-back. Based on advice received to-date, Prospect expects the unfranked dividend component to comprise a minimum of 75% of the Proposed Distribution for tax purposes, including if structured as a buy-back.

Shareholder approval is required to proceed with the Proposed Transaction, as it contemplates Prospect disposing of its main undertaking. An extraordinary general meeting is scheduled for 25 February 2022 for this purpose.

The final amount and structure of the Proposed Distribution will be determined by the Board following:

- finalisation of the quantum of capital gains tax in Zimbabwe and transaction costs payable on the sale;
- conversion of the net sale proceeds from US dollars to Australian dollars; and
- receipt of final advice pertaining to the Proposed Distribution, and receipt of a tax ruling from the Australian Taxation Office (**ATO**).

Payment of the Proposed Distribution will occur at the latest following receipt of any additional Shareholder approvals required, which will be sought after Prospect has received a tax ruling from the ATO.

Prospect also plans to retain a cash balance to progress its other battery metal projects in Zimbabwe, and evaluate, acquire and advance new battery metal projects globally. Prospect currently estimates it will retain between \$30 million and \$60 million³, or between \$0.06 and \$0.13 per Share (fully diluted)⁴.

Completion of the Proposed Transaction is also subject to several other conditions precedent, including requisite Chinese approvals being obtained by Huayou, several Zimbabwean regulatory approvals and exemptions and termination of an existing offtake agreement (a deed of termination and release to give

¹ Calculated as the Purchase Price converted from USD to AUD at an exchange rate of 0.715, undiluted is divided by current Shares on issue (428,523,535), fully diluted is divided by fully diluted Shares on issue of 468,273,535, which assumes all current Options on issue (39,750,000) are converted into Shares.

² Calculated based on fully diluted Shares on issue of 468,273,535.

³ This estimate includes existing cash of approximately \$20 million plus estimated cash received from the exercise of Options (maximum of \$11.4 million), less estimated Zimbabwe capital gains tax, transaction costs (including the agreed payment to Sinomine of US\$8 million) and other expenditure between now and Completion.

⁴ Calculated based on fully diluted Shares on issue of 468,273,535.

effect to this condition precedent has recently been executed, as announced by the Company on 18 January 2022).

Subject to all conditions precedent being satisfied or waived, Prospect currently anticipates the Proposed Transaction completing in late Q1 or Q2 2022.

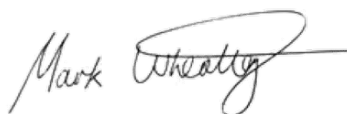
The Proposed Transaction will deliver several benefits to Prospect Shareholders, including:

- sale of the Arcadia Project at an implied Purchase Price per Share representing a material premium to market prices of Prospect Shares prior to announcement;
- realisation of a significant cash return to Shareholders;
- avoidance of the risks associated with development and future operation of the Arcadia Project; and
- the opportunity for Prospect Shareholders to retain their shareholdings in Prospect and participate in the next phase of the Company's evolution.

The benefits of the Proposed Transaction are explained in more detail in the attached Explanatory Memorandum.

Your Board unanimously recommends that Shareholders vote in favour of the Proposed Transaction as described in the Resolution, which requires a simple majority of 50% or more of votes cast at the general meeting in favour to be passed.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Mark Wheatley', with a stylized flourish extending from the end.

Mark Wheatley
Chairman
Prospect Resources Limited

Notice of Extraordinary General Meeting

Notice is hereby given that an Extraordinary General Meeting of Shareholders of Prospect Resources Limited ACN 124 354 329 will be held at 10.00am (Perth time) on Friday, 25 February 2022 at Level 2, 40 Kings Park Road, West Perth, Western Australia 6005.

The Explanatory Memorandum to this Notice of Meeting provides additional information on matters to be considered at the Extraordinary General Meeting. The Explanatory Memorandum forms part of this Notice of Meeting.

The Directors have determined pursuant to Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) that the persons eligible to vote at the Extraordinary General Meeting are those who are registered Shareholders at 10.00am (Perth time) on Wednesday, 23 February 2022.

Resolution – Disposal of the Company’s interest in the Arcadia Lithium Project

To consider and, if thought fit, to pass with or without amendment, the following resolution as an **ordinary resolution**:

“That for the purposes of ASX Listing Rule 11.2 and for all other purposes, approval is given by the Shareholders of the Company to the dispose of the Company’s interest in the Arcadia Lithium Project on the terms and conditions set out in the Explanatory Memorandum.”

Voting exclusion statement

The Company will disregard any votes cast in favour of the Resolution by or on behalf of:

- (a) the acquirer of the transaction the subject of this Resolution and any other person who will obtain a material benefit as a result of the transaction (except a benefit solely by reason of being a Shareholder of the Company); or
- (b) an Associate of that party (or those parties).

However, this does not apply to a vote cast in favour of the Resolution by:

- (i) a person as proxy or attorney for a person who is entitled to vote on the Resolution, in accordance with the directions given to the proxy or attorney to vote on the Resolution in that way;
- (ii) the Chair of the Extraordinary General Meeting as proxy or attorney for a person who is entitled to vote on the Resolution, in accordance with a direction given to the Chair to vote on the Resolution as the Chair decides; or
- (iii) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (A) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the Resolution; and
 - (B) the holder votes on the Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Dated: 25 January 2022

BY ORDER OF THE BOARD

Lee Tamplin
Joint Company Secretary

Explanatory Memorandum

This Explanatory Memorandum has been prepared for the information of the Shareholders in connection with the business to be conducted at the Extraordinary General Meeting to be held at 10.00am (Perth time) on Friday, 25 February 2022 at Level 2, 40 Kings Park Road, West Perth, Western Australia 6005.

The purpose of this Explanatory Memorandum is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolution in the Notice of Meeting.

If you are in any doubt about what to do in relation to the Resolution contemplated in the Notice of Meeting and this Explanatory Memorandum, it is recommended that you seek advice from an accountant, solicitor or other professional advisor.

Full details of the business to be considered at the Meeting are set out below.

1 INTRODUCTION

As announced by the Company on 23 December 2021, the Company, through its 100% owned subsidiary Prospect Minerals Pte Ltd (**PMPL**), entered into a binding Share Sale Agreement with Huayou International Mining (Hong Kong) Limited (**Huayou**), for the sale of its 87% shareholding in Prospect Lithium Zimbabwe (Pvt) Limited (**PLZ**), owner of the Arcadia Lithium Project (**Arcadia** or the **Arcadia Project**) in Zimbabwe.

Subject to the terms of the Share Sale Agreement, Huayou has agreed to purchase PMPL's 87% shareholding in PLZ and associated intercompany loan for approximately US\$377.8 million in upfront cash consideration (**Purchase Price**).

The Proposed Transaction is subject to a number of conditions precedent, including the approval by the Company's Shareholders for the purposes of ASX Listing Rule 11.2.

The Company is holding this EGM to ask its Shareholders to consider and, if thought fit, pass the Resolution to approve the Proposed Transaction.

2 REASONS FOR THE PROPOSED TRANSACTION

2.1 Background

Since releasing its first Feasibility Study on the Arcadia Project in November 2018, the Company has been actively seeking the most suitable funding solution for its development.

As announced by the Company on 23 August 2021, in response to multiple enquiries received from a range of international parties in relation to funding and development of the Arcadia Project, the Directors decided to commence a structured process whereby interested parties had the opportunity to put forward partnership proposals in a competitive environment to fully fund the Arcadia Project (**Partnership Process**).

As a result of this process, the Company received seven non-binding proposals for the advancement of the Arcadia Project from a range of international parties. These proposals encompassed structures including development joint ventures, offtake prepayment debt funding and acquisition of the Company's interest in the Arcadia Project.⁵

The Board of Directors has formed the view that the Proposed Transaction delivers the most attractive risk-adjusted, post-tax value outcome for Prospect Shareholders, compared to other proposed development and funding options for Arcadia under either Prospect or joint venture

⁵ See the Company's ASX release dated 22 November 2021.

ownership.

2.2 Advantages and disadvantages of the Proposed Transaction

Sections 4 and 5 set out some of the key advantages and disadvantages of the Proposed Transaction.

2.3 Alternatives considered by the Directors

As announced by the Company on 22 November 2021, the Company received seven non-binding proposals for the advancement of the Arcadia Project. The Directors evaluated each of the proposals carefully in conjunction with its financial and legal advisers, and considered alternatives to the Proposed Transaction, including:

- whether it would be in the best interest of the Shareholders for the Company to retain its interest in the Arcadia Project;
- the overall value that could be delivered to the Shareholders;
- the risks and certainty of any alternative transactions; and
- the sale of the Company's interest in Arcadia to a party other than Huayou.

After careful evaluation, the Board has formed the view that the sale of its shareholding in PLZ to Huayou on the terms and conditions of the Share Sale Agreement delivers the most attractive risk-adjusted, post-tax value outcome for Shareholders, compared to other proposed development and funding options for the Arcadia Project, either under Prospect or joint venture ownership.

3 DIRECTORS' RECOMMENDATION

The Directors consider that the Proposed Transaction is in the best interests of Shareholders and unanimously recommend that Shareholders vote in favour of the Resolution to approve the Proposed Transaction.

Each Director intends to vote all Shares held or controlled by them in favour of the Resolution to approve the Proposed Transaction.

4 REASONS TO VOTE IN FAVOUR OF THE PROPOSED TRANSACTION

The Directors dedicated considerable time and attention to the Proposed Transaction prior to deciding to enter the Share Sale Agreement with Huayou, including forming a view on the advantages and disadvantages of the Proposed Transaction for the Company and its Shareholders.

The principal advantages the Directors considered are set out below.

4.1 Most attractive offer received from Partnership Process

As noted above, the Proposed Transaction represents the culmination of the Partnership Process undertaken by Prospect since August 2021 and was considered by the Board as the most attractive risk-adjusted, post-tax value outcome for Shareholders, compared to other proposed development and funding options for the Arcadia Project, either under Prospect or joint venture ownership.

4.2 Realisation of value for Arcadia at a substantial premium to market trading of Prospect shares

The Purchase Price of approximately US\$377.8 million is equivalent to:

- approximately \$1.23 per Prospect Share (undiluted)⁶; and
- approximately \$1.13 per Prospect Share (fully diluted)⁷.

As announced on 23 December 2021, the figure of \$1.23 per Share (undiluted) represents a 78% premium to the 10-day volume weighted average price of Prospect Shares up to and including Wednesday, 22 December 2021 (being the day prior to announcement of the Proposed Transaction) of \$0.69.

Additional premiums represented by the Purchase Price per Share (both undiluted and fully diluted) relative to trading in Prospect Shares up to and including Wednesday, 22 December 2021 are summarised in the table below:

Premiums of Purchase Price per Share to Prospect Share prices	Relevant Prospect Share price (\$/share)	Premiums – Purchase Price per Share (undiluted) of \$1.23	Premiums – Purchase Price per Share (fully diluted) of \$1.13
Last close	0.77	61%	47%
10 day VWAP	0.69	78%	64%
3 month VWAP	0.58	111%	95%
6 month VWAP	0.48	154%	135%
Capital raising price announced 29 October 2021	0.40	208%	183%

Shareholders should note that these calculations do not take account of capital gains tax payable in Zimbabwe, transaction costs payable in relation to the Proposed Transaction, the value of Prospect's other assets, including existing cash on hand and cash received from the exercise of Options, or individual Shareholders' tax circumstances.

4.3 Enables cash return to shareholders

If the Proposed Transaction completes, Prospect expects to distribute the bulk of the net sale proceeds (after Zimbabwe capital gains tax and transaction costs) to Shareholders.

Prospect currently estimates this distribution of capital will be in the range of \$430 million to \$450 million, or between approximately \$0.92 to \$0.96 per Share (fully diluted)⁸ (**Proposed Distribution**).

Further detail on the Proposed Distribution is provided in section 7.2.

⁶ Calculated based on an AUD:USD exchange rate of 0.715 and undiluted Shares on issue of 428,523,535.

⁷ Calculated based on an AUD:USD exchange rate of 0.715 and fully diluted Shares on issue of 468,273,535.

⁸ Calculated based on fully diluted Shares on issue of 468,273,535.

4.4 Avoids uncertainty and risks of future development and operation of Arcadia Project

By approving the Proposed Transaction, and subject to the Proposed Transaction Completing, Shareholders will avoid exposure to a various risks associated with financing, constructing and operating a lithium mine in Zimbabwe.

These risks include:

- Risks associated with financing the Arcadia Project, including risks associated with debt funding, the dilutionary impacts of any required equity capital raising and risks associated with partnering or joint venturing to fund development.
- Risks associated with constructing the Arcadia Project, including:
 - time and cost-related additions or overruns;
 - technical and engineering risk in process plant design and equipment selection;
 - constraints in availability of materials, equipment, and logistic limitations, including supply chain issues arising from the COVID 19 pandemic;
 - environmental risks, including new environmental requirements and / or regulations; and
 - securing and retaining key talent in the current high demand market environment.
- Unforeseen adverse geological, mining conditions or other technical challenges.
- Market risks associated with producing and selling lithium products, particularly petalite concentrates which are currently traded globally in much smaller volumes than spodumene concentrate.
- Risks associated with operating in a developing country such as Zimbabwe, including regulatory and compliance changes.
- Macroeconomic impacts from movements in relevant global commodity prices and global currency exchange rates that may impact the development and ongoing operations of the Arcadia Project.
- The time required to achieve positive cash flows from the Arcadia Project and associated holding costs.

4.5 Continued exposure to Prospect team and other assets

In addition to the Proposed Distribution, Shareholders will continue to hold Shares in Prospect.

The Directors of Prospect plan to retain key members of the current Prospect management team, as well as a cash balance currently estimated to be between \$30 million to \$60 million, collectively to progress its other battery metal projects in Zimbabwe and evaluate, acquire and advance new battery metal projects globally.

Further detail on Prospect's intentions post-Completion is set out in section 7.1.

4.6 Avoids risk of Share price falling

If the Proposed Transaction is not approved by Shareholders and does not Complete, the market price of Prospect may fall from its current levels.

4.7 High quality, fully-funded counterparty

Huayou is a leading Chinese new energy materials producer with three major business segments: (1) research, development and production of cathode materials; (2) research, development and production of battery precursors; and (3) development of battery metals resources.

Huayou is listed on the Shanghai Stock Exchange with a market capitalisation of approximately US\$22 billion. Huayou will fund the Purchase Price from existing cash reserves.

Given Huayou's existing copper and cobalt mining operations in Africa and strong financial capacity, Prospect considers Huayou to be a natural acquirer of the Arcadia Project and a low-risk counterparty, providing increased certainty to Shareholders that the Proposed Transaction will Complete, if approved by Shareholders.

5 REASONS TO VOTE AGAINST THE PROPOSED TRANSACTION

The Directors consider that there are possible disadvantages associated with the Proposed Transaction. Some of the reasons why Shareholders may want to vote against the Proposed Transaction include:

5.1 Disagree with Directors' recommendation

Shareholders may disagree with the Directors' unanimous recommendation that Shareholders should vote in favour of the Proposed Transaction.

5.2 Principal asset sale

The Proposed Transaction involves Prospect selling its principal asset, which may not be consistent with the investment objectives of all Shareholders. In particular, if the Proposed Transaction Completes, Shareholders will no longer have exposure to economic returns arising from the Arcadia Project.

5.3 Other assets

There is a risk that Prospect may not be able to progress its other assets, or identify, complete the acquisition of, or progress other suitable investment opportunities, in a value accretive manner for Shareholders.

5.4 Liquidity

Trading in Prospect Shares may become less liquid following Completion of the Proposed Transaction.

6 PROVISIONAL TIMETABLE

The provisional timetable for the Proposed Transaction is:

- 25 January 2022: Notice of meeting and Explanatory Memorandum dispatched to Shareholders
- 25 February 2022: General meeting of Shareholders to approve the Proposed Transaction
- By end April 2022: Completion of the Proposed Transaction (timing subject to satisfaction or waiver of the conditions precedent noted in section 8.2)

- May 2022: Receipt of tax ruling from ATO
- June 2022: General meeting to approve any element of the Proposed Distribution requiring Shareholder approval
- Mid-2022: Proposed Distribution paid to Shareholders

All dates are approximate and are subject to change by Prospect.

7 COMPANY'S INTENTIONS POST-COMPLETION

7.1 Operations of the Company

At present, the interest in the Arcadia Lithium Project is the Company's main asset. Subject to Completion of the Proposed Transaction, the Company will no longer have any interest in the Arcadia Lithium Project.

The Company currently has several other early-stage battery metal projects in Zimbabwe, including the Step Aside Lithium Project (**Step Aside**). Step Aside comprises around 140 hectares of claims and is located within the Harare Greenstone Belt, west of the Mashonganyika Fault, and approximately 8 kilometres north of the Arcadia Project.

Subject to Completion of the Proposed Transaction and payment of the Proposed Distribution, Prospect currently estimates it will retain between \$30 million and \$60 million (between \$0.06 and \$0.13 per Share, fully diluted⁹). This includes Prospect's current cash balance of approximately \$20 million and estimated cash received from the exercise of Options, less estimated Zimbabwe capital gains tax, transaction costs payable in relation to the Proposed Transaction (including the agreed payment of US\$8 million to Sinomine) and Company expenditure between now and Completion.

The final amount of cash retained will depend on several matters including the quantum of the Proposed Distribution, Zimbabwe capital gains tax, transaction costs, cash received from the exercise of Options and foreign exchange movements.

The cash retained by Prospect will be used to progress its other battery metals projects in Zimbabwe, and evaluate, acquire and advance new battery metals opportunities globally.

7.2 Distribution of proceeds from Proposed Transaction

As announced by the Company on 23 December 2021, the Company intends to distribute the bulk of the sale proceeds from the Proposed Transaction (net of Zimbabwe capital gains tax and transaction costs) to Shareholders.

As at the date of this Notice of Meeting, the Directors estimate this Proposed Distribution will be in the range of \$430 million to \$450 million, or between approximately \$0.92 to \$0.96 per Share (fully diluted)¹⁰.

The Proposed Distribution will be paid as an unfranked dividend and equal capital reduction, or an equal access share buy-back.

Based on advice received to-date, Prospect expects a minimum of 75% of the Proposed Distribution will be an unfranked dividend for tax purposes, including if structured as a share buy-back.

The final amount and structure of the Proposed Distribution will be determined by the Board

⁹ Calculated based on fully diluted Shares on issue of 468,273,535.

¹⁰ Calculated based on fully diluted Shares on issue of 468,273,535.

following:

- finalisation of the quantum of capital gains tax in Zimbabwe and transaction costs payable on the sale;
- conversion of the net sale proceeds from US dollars to Australian dollars; and
- receipt of final financial, legal and tax advice.

The Company also intends to seek an ATO class ruling to confirm the broader tax outcomes for relevant main Shareholder classes, as a result of the Proposed Distribution.

Depending on the final structure determined by the Board, a further Shareholder approval may be required before the Proposed Distribution could be undertaken. The Company will keep Shareholders informed via its ASX announcements. If a further Shareholder approval is required, the Company will hold another general meeting for the Shareholders to consider the relevant resolution(s) in relation to the Proposed Distribution as soon as possible after a decision is taken. Payment of the Proposed Distribution will occur at the latest following receipt of any further Shareholder approvals required,

7.3 Financial effect of the Proposed Transaction

If the Proposed Transaction Completes, the financial effects on the consolidated financial statements of the Company, before any proceeds are distributed, are expected to be as follows:

Estimated effect on:	\$ million*	Comment
Total assets	442	Positive movement resulting from disposal of the PLZ asset and receipt of cash proceeds less expected costs
Total equity interests	Nil	
Annual revenue	\$528	Positive movement from gross proceeds received from the sale of the PLZ asset
Annual expenditure	-\$2	Negative due to annual administration and salary not spent on PLZ
Annual profit before tax	\$442	Positive movement resulting from disposal of the PLZ asset and receipt of cash proceeds less expected costs

* Calculated based on a USD to AUD exchange rate of 0.715.

The Company expects to make the Proposed Distribution and to retain sufficient cash to fund its stated objectives, as discussed in sections 7.1 and 7.2. The overall impact following the Proposed Distribution is expected to be a marginal increase in total assets.

7.4 Intentions if Proposed Transaction does not Complete

The Proposed Transaction does not Complete, the Board intends to continue operating the Arcadia Project on the same basis as prior to announcing the Proposed Transaction. Relevantly, this will include:

- continuing to operate the pilot plant currently on-site;
- completing further studies on the Arcadia Project, including undertaking detailed design and engineering work; and

- progressing discussions with third parties with a view to obtaining financing to fund development of the Arcadia Project.

Depending on the reason for the Proposed Transaction not completing, either:

- no consideration will be payable to Prospect; or
- Prospect will be entitled to retain the deposit of US\$20 million, which will be applied by Prospect to the activities described above. See section 8.3 for further information relating to the deposit.

In either case, the Proposed Distribution will not occur.

8 KEY TERMS OF THE PROPOSED TRANSACTION

The Share Sale Agreement includes the following key terms.

8.1 Purchase Price

Huayou has agreed to pay approximately US\$377.8 million for the Company's 87% interest in PLZ, which includes:

- approximately US\$365.8 million for PMPL's shareholding in PLZ; and
- US\$12.0 million for the novation from the Company to Huayou of the intercompany loan between the Company and PLZ.

8.2 Conditions precedent

Key conditions precedent to Completion include:

- Shareholder approval for the purposes of ASX Listing Rule 11.2;
- the following Chinese regulatory approvals being obtained by Huayou:
 - (A) a notice from the National Development and Reform Commission of the People's Republic of China with respect to the filing of the Proposed Transaction;
 - (B) an outbound investment certificate from the Ministry of Commerce of the People's Republic of China with respect to the filing of the Proposed Transaction; and
 - (C) the receipt of all relevant foreign exchange registrations from a qualified bank supervised by the State Administration of Foreign Exchange of the People's Republic of China in connection with the Proposed Transaction.

Huayou has notified the Company that it has obtained the outbound investment certificate from the Ministry of Commerce of the People's Republic of China with respect to the filing of the Proposed Transaction. Application for filing and registration by the National Development and Reform Commission (NDRC) has been submitted by Huayou. Once the filing and registration by NDRC is completed, Huayou will apply for the relevant exchange registrations from a qualified bank supervised by the State Administration of Foreign Exchange (SAFE);

- Requisite Zimbabwean regulatory approvals and exemptions being obtained by both PMPL and Huayou, including:
 - (A) exchange control approvals by the Reserve Bank of Zimbabwe;

- (B) merger control approvals by relevant Zimbabwean authorities;
- (C) PMPL obtaining the capital gains tax clearance in relation to the Proposed Transaction, and
- (D) PLZ obtaining necessary amendments to its Special Economic Zone Licence;
- PLZ's existing offtake and marketing agreements (Existing Offtake Agreement) being terminated. As announced by the Company on 18 January 2022, Prospect and PLZ have entered into a deed of termination and release (**Termination Deed**) with the offtake counterparty, Sinomine Resource (Hong Kong) International Trading Co. Limited (Sinomine) under which, subject to Completion of the Proposed Transaction, the Existing Offtake Agreement will be terminated 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 Proposed Transaction. If the Proposed Transaction does not Complete, the terms of the Termination Deed do not take effect, and the status quo in relation to the Existing Offtake Agreement prevails.

The parties to the Share Sale Agreement have confirmed that this condition precedent will have been satisfied once the Termination Deed takes effect, and Huayou has also 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;

- no material adverse change to PLZ's key mining tenements, environmental impact assessment certificate or the terms of its Special Economic Zone Licence; and
- no material breach of certain pre-Completion, ordinary course conduct of business obligations.

If all conditions precedent are not satisfied or waived within 4 months from the date of execution of the Share Sale Agreement¹¹, then either PMPL or Huayou may terminate the Share Sale Agreement.

Subject to all conditions precedent being satisfied or waived, the Company currently anticipates Completion of the Proposed Transaction occurring in late Q1 or Q2 2022.

8.3 Deposit

In accordance with the terms of the Share Sale Agreement, Huayou has paid a deposit of US\$20 million to a trust account nominated by the Company. This deposit will be forfeited by Huayou if the Proposed Transaction does not Complete due to any of the following:

- requisite Chinese regulatory approvals not being obtained;
- Huayou electing to terminate the Share Sale Agreement due to PLZ not being able to obtain certification to export lithium products directly on terms acceptable to Huayou;
- Huayou failing to carry out its obligations to complete after all conditions precedent have been satisfied or waived (other than as a result of default by PMPL); or
- Huayou or the Huayou Guarantor being or becoming insolvent.

¹¹ This period may be extended by agreement between the parties. The parties agree to act reasonably to extend the period to 6 months to satisfy any outstanding regulatory approvals.

8.4 Exclusivity and break fee

Under the Share Sale Agreement, the Company has agreed to a standard exclusivity regime prior to Completion, including cessation of any other existing discussions, no shop, no talk and no provision of due diligence. This regime is subject to a fiduciary out exception.

A break fee of US\$20 million is payable by PMPL to Huayou if the Proposed Transaction does not complete due to any of the following:

- a competing transaction completing within 12 months, following the competing transaction being recommended by the Directors of the Company;
- any Director of the Company changing, withdrawing or adversely qualifying their recommendation of the Proposed Transaction where there is no competing proposal and the Shareholders of the Company do not approve the Proposed Transaction;
- PMPL failing to carry out its obligations to Complete after all conditions precedent have been satisfied or waived (other than as a result of default by Huayou); or
- the Company or PMPL being or becoming insolvent.

Where all Directors have maintained, and *not* changed, withdrawn or adversely qualified their recommendation of the Proposed Transaction, the break fee is not payable if the Shareholders of the Company do not approve the Proposed Transaction.

8.5 Other matters

Huayou's obligations under the Share Sale Agreement have been guaranteed by its parent company, Zhejiang Huayou Cobalt Co., Limited. PMPL's obligations are guaranteed by the Company.

The Company has agreed with Huayou that, for a period of 12 months from signing the Share Sale Agreement, neither it nor any member of the Prospect Group will apply for or obtain any exploration or mining title (either directly or via acquisition of more than 20% in another entity) within a 20 kilometre radius of the Arcadia Project tenements, except for an excluded area comprising the Step Aside claim, which is already held by a Prospect Group Member.

The Share Sale Agreement also contains provisions pertaining to pre-completion conduct, warranties and indemnities that are customary for a transaction of this nature.

9 ASX LISTING RULE 11.2 and effect of the Resolution

The Resolution is required under ASX Listing Rule 11.2, which prohibits an entity from disposing of its main undertaking (that is, its main asset or business) without the approval of its shareholders. As the Proposed Transaction involves the disposal of the Company's entire 87% interest in the Arcadia Project, being the Company's main asset, ASX Listing Rule 11.2 applies to the Proposed Transaction.

The Resolution is an ordinary resolution, which requires the approval of more than 50% of the votes cast at the EGM by the Shareholders entitled to vote.

If the Resolution is passed by the Shareholders at the EGM, the conditions precedent to the Proposed Transaction in relation to Prospect's Shareholder approval will be satisfied. Subject to all other conditions precedent being satisfied or waived, Completion of the Proposed Transaction is expected to occur in late Q1 or Q2 2022. Upon Completion of the Proposed Transaction, Prospect will no longer hold its 87% interest in the Arcadia Project. Prospect's intentions following Completion and the financial effect of the Proposed Transaction are set out in sections 7.1 to 7.3.

If the Resolution is not passed by the Shareholders at the EGM, and the condition precedent to the Proposed Transaction in relation to Prospect's Shareholder approval is considered by Prospect and Huayou being incapable of being satisfied or if it remains not satisfied within 4 months from the date of execution of the Share Sale Agreement¹², then either PMPL or Huayou may terminate the Share Sale Agreement in accordance with the terms of the Share Sale Agreement, and in that event the Proposed Transaction will not proceed. Prospect's intentions if the Proposed Transaction does not Complete are set out in section 7.4.

10 OTHER INFORMATION

10.1 Minority shareholders transaction

Huayou has also agreed with the other two shareholders of PLZ, Professor Kingston Kajese and the Tamari Trust, to acquire their shareholdings in PLZ, conditional on the Proposed Transaction completing. However, Completion of the Proposed Transaction is not conditional on Completion of the transactions between Huayou and the other two shareholders of PLZ.

10.2 Directors' interest

No Director will receive a payment or benefit of any kind as a result of the Proposed Transaction, other than as a Shareholder of the Company.

The table below sets out the Shares and Options held by the Directors as at the date of the Notice of Meeting.

Director	Number of Shares	Number of Options
M Wheatley	645,162	2,000,000
H Greaves	5,517,954	-
G Fahey	1,025,000	1,000,000
Zed Rusike	3,040,374	-
D Shetty	-	1,000,000
H Chen	6,165,796	1,000,000
S Hosack	2,000,000	10,500,000

As at the date of this notice, all Directors' Options have vested. The exercise price is \$0.24 for all Directors' Options other than S Hosack. The exercise price of the Options held by S Hosack is \$0.26 for 6,000,000 Options and \$0.60 for 4,500,000 Options. The Directors' Options also have a cashless exercise alternative, which if selected, reduces the number of Shares to be issued, with the exact number depending on the prevailing Share price at the time of exercise. Whether cashless exercise is selected is unlikely to impact the Proposed Distribution as described in section 7.2.

10.3 Board and senior management

There is no change proposed to the Company's Board or senior management in connection with, or as a consequence of, the Proposed Transaction.

¹² This period may be extended by agreement between the parties.

10.4 No other material information

Other than as set out in this Notice of Meeting and information previously disclosed to Shareholders, there is no other information currently known to the Directors which might reasonably be expected to be material to the making of a decision by Shareholders whether or not to vote in favour of the Resolution.

10.5 No investment advice

The information provided in this Explanatory Memorandum is not financial product advice and has been prepared without taking into account your investment objectives, financial circumstances or particular needs. Accordingly, nothing in this Explanatory Memorandum should be construed as a recommendation by the Company, or any associates of the Company, or any other person concerning an investment in the Company.

If you are in doubt as to the course of action you should follow, you should seek advice on the matters contained in this Explanatory Memorandum from a solicitor, stockbroker, accountant or other professional financial adviser immediately.

10.6 Forward looking statements

This Explanatory Memorandum contains forward looking statements which are subject to known and unknown risks, uncertainties and other factors that could cause the actual results, performance or achievements of Prospect, or the effect or implementation of the Proposed Transaction, to vary materially from those expressed or implied in such forward looking statements.

Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and deviations are both normal and to be expected. Prospect makes no representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement. You are cautioned not to place undue reliance on those statements.

The forward looking statements in this Explanatory Memorandum reflect views held only as at the date of this Explanatory Memorandum.

Enquiries

Shareholders are asked to contact Mr Ian Goldberg, Chief Financial Officer and Joint Company Secretary, on +61 405 524 960 if they have any queries in respect of the matters set out in these documents.

Glossary

Arcadia or **Arcadia Project** means the hard rock lithium operation known as the “Arcadia Lithium Project”, located approximately 35 kilometres east of Harare, Zimbabwe.

Associate has the meaning given to it by the Corporations Act.

ASX means ASX Limited ACN 008 624 691 or the financial market operated by it, as the context requires, of 20 Bridge Street, Sydney, NSW 2000.

ASX Listing Rules or **Listing Rules** means the official ASX Listing Rules of the ASX and any other rules of the ASX which are applicable while the Company is admitted to the official list of the ASX, as amended or replaced from time to time, except to the extent of any express written waiver by the ASX.

ATO means the Australian Taxation Office.

Board means the current board of Directors of the Company.

Chair means the person chairing the Meeting.

Company or **Prospect** means Prospect Resources Limited ACN 124 354 329.

Completion means completion of the Proposed Transaction, and **Complete** has the corresponding meaning.

Corporations Act means the *Corporations Act 2001* (Cth) as amended or replaced from time to time.

Director means a current director of the Company.

Dollar or “\$” means Australian dollars.

Existing Offtake Agreement has the meaning given to that term in section 8.12.

Explanatory Memorandum means the explanatory memorandum accompanying this Notice of Meeting.

Extraordinary General Meeting or **EGM** or **Meeting** means an Extraordinary General Meeting of the Company and, unless otherwise indicated, means the meeting of the Company’s members convened by this Notice of Meeting.

Farvic means Farvic Consolidated Mines (Pvt) Ltd, a private company incorporated in Zimbabwe with the registration number 20/2003.

Government Agency means any governmental, semi-governmental, administrative, fiscal, judicial or quasi-judicial body, department, commission, authority, tribunal, agency or entity.

Huayou means Huayou International Mining (Hong Kong) Limited, a company incorporated in Hong Kong SAR with company number 1980004.

Huayou Cobalt or **Huayou Guarantor** means Zhejiang Huayou Cobalt Co., Ltd., a company incorporated in the People’s Republic of China with Uniform Social Credit Number 913300007368873961.

Notice of Meeting or **Notice of Extraordinary General Meeting** means this notice of extraordinary general meeting dated 25 January 2022, including the Explanatory Memorandum.

Option or Prospect Option means an option to acquire a Share.

Partnership Process is defined in section 2.1 of the Explanatory Memorandum.

PLZ means Prospect Lithium Zimbabwe (Pvt) Ltd, a private company incorporated in Zimbabwe with registration number (9123/2008).

PMPL means Prospect Minerals Pte Ltd, a private company incorporated in Singapore with UEN 201327565H.

Proposed Distribution is defined in section 4.3 of the Explanatory Memorandum.

Proposed Transaction means the proposed sale by PMPL of its 87% shareholding in PLZ in

accordance with the terms and conditions of the Share Sale Agreement.

Prospect Group means and Company and its subsidiaries, and **Prospect Group Member** means a company within the Prospect Group.

Proxy Form means the proxy form attached to this Notice of Meeting.

Purchase Price is defined in section 1 of the Explanatory Memorandum .

Related Party has the meaning given to it by the ASX Listing Rules and the Corporations Act.

Resolution means the resolution set out in this Notice of Meeting.

Share means a fully paid ordinary share in the capital of the Company.

Share Sale Agreement means the Share Sale and Purchase Agreement dated 22 December 2021 between PMPL, the Company, Huayou, and Huayou Guarantor.

Share Registry means Automic Registry Services.

Shareholder means a holder of a Share.

Sinomine means Sinomine Resource (Hong Kong) International Trading Co. Limited.

Step Aside is defined in section 7.1.

Termination Deed is defined in section 8.2 of the Explanatory Memorandum.

Proxy Voting Form

If you are attending the meeting
in person, please bring this with you
for Securityholder registration.

Holder Number:
[HolderNumber]

Your proxy voting instruction must be received by **10.00am (Perth time) on Wednesday, 23 February, 2022**, being **not later than 48 hours** before the commencement of the Meeting. Any Proxy Voting instructions received after that time will not be valid for the scheduled Meeting.

SUBMIT YOUR PROXY VOTE ONLINE

Vote online at <https://investor.automic.com.au/#/loginsah>

Login & Click on 'Meetings'. Use the Holder Number as shown at the top of this Proxy Voting form.

- ✓ **Save Money:** help minimise unnecessary print and mail costs for the Company.
- ✓ **It's Quick and Secure:** provides you with greater privacy, eliminates any postal delays and the risk of potentially getting lost in transit.
- ✓ **Receive Vote Confirmation:** instant confirmation that your vote has been processed. It also allows you to amend your vote if required.



SUBMIT YOUR PROXY VOTE BY PAPER

Complete the form overleaf in accordance with the instructions set out below.

YOUR NAME AND ADDRESS

The name and address shown above is as it appears on the Company's share register. If this information is incorrect, and you have an Issuer Sponsored holding, you can update your address through the investor portal: <https://investor.automic.com.au/#/home> Shareholders sponsored by a broker should advise their broker of any changes.

STEP 1 – APPOINT A PROXY

If you wish to appoint someone other than the Chair of the Meeting as your proxy, please write the name of that Individual or body corporate. A proxy need not be a Shareholder of the Company. Otherwise, if you leave this box blank, the Chair of the Meeting will be appointed as your proxy by default.

DEFAULT TO THE CHAIR OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chair of the Meeting, who is required to vote these proxies as directed. Any undirected proxies that default to the Chair of the Meeting will be voted according to the instructions set out in this Proxy Voting Form, including where the Resolutions are connected directly or indirectly with the remuneration of KMP.

STEP 2 - VOTES ON ITEMS OF BUSINESS

You may direct your proxy how to vote by marking one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF SECOND PROXY

You may appoint up to two proxies. If you appoint two proxies, you should complete two separate Proxy Voting Forms and specify the percentage or number each proxy may exercise. If you do not specify a percentage or number, each proxy may exercise half the votes. You must return both Proxy Voting Forms together. If you require an additional Proxy Voting Form, contact Automic Registry Services.

SIGNING INSTRUCTIONS

Individual: Where the holding is in one name, the Shareholder must sign.

Joint holding: Where the holding is in more than one name, all Shareholders should sign.

Power of attorney: If you have not already lodged the power of attorney with the registry, please attach a certified photocopy of the power of attorney to this Proxy Voting Form when you return it.

Companies: To be signed in accordance with your Constitution. Please sign in the appropriate box which indicates the office held by you.

Email Address: Please provide your email address in the space provided.

By providing your email address, you elect to receive all communications despatched by the Company electronically (where legally permissible) such as a Notice of Meeting, Proxy Voting Form and Annual Report via email.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate 'Appointment of Corporate Representative' should be produced prior to admission. A form may be obtained from the Company's share registry online at <https://automic.com.au>.

SIGNATURE OF SECURITYHOLDERS – THIS MUST BE COMPLETED		
Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director / Company Secretary
Contact Name:		
Email Address:		
Contact Daytime Telephone		
		Date (DD/MM/YY)
		<div style="display: inline-block; width: 30px; height: 30px; border: 1px solid black; margin-right: 5px;"></div> <div style="font-size: 2em; vertical-align: middle;">/</div> <div style="display: inline-block; width: 30px; height: 30px; border: 1px solid black; margin-right: 5px;"></div> <div style="font-size: 2em; vertical-align: middle;">/</div> <div style="display: inline-block; width: 30px; height: 30px; border: 1px solid black;"></div>

By providing your email address, you elect to receive all of your communications despatched by the Company electronically (where legally permissible).