



Prospect Resources

PROSPECT RESOURCES LIMITED

ACN 124 354 329

**Notice of Extraordinary General Meeting
Explanatory Memorandum
& Proxy Form**

FOR THE PROPOSED CAPITAL REDUCTION OF A\$0.19 PER SHARE

THE BOARD OF DIRECTORS HAVE SEPARATELY RESOLVED TO PAY A SPECIAL DIVIDEND OF A\$0.77 PER SHARE.

IF THE CAPITAL REDUCTION IS APPROVED BY SHAREHOLDERS, THE TOTAL AMOUNT OF THE CASH DISTRIBUTION TO ELIGIBLE SHAREHOLDERS WILL BE A\$0.96 PER SHARE

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

Time of the meeting: 10.30 am (Perth time)

Date of the meeting: Monday, 18th July 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 Joint Company Secretary on +61 405 524 960.

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IMPORTANT NOTICES AND HOW TO VOTE

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 17th June 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 10.30am (Perth time) on Monday, 18th July 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

A copy of the Notice of Meeting, including this Explanatory Memorandum, has been lodged with ASIC and provided to ASX, and neither ASIC, ASX nor any of their officers takes any responsibility for the content of this Notice of Meeting and Explanatory Memorandum.

IMPORTANT DATES

Time and date	Event
10.30am (Perth time) on Saturday, 16th July 2022	Latest time and date for proxies for the EGM to be submitted to the Share Registry
10.30am (Perth time) on Saturday, 16th July 2022	Time and date for determining eligibility to vote at the EGM
10.30am (Perth time) on Monday, 18th July 2022	Extraordinary General Meeting
If the Capital Reduction is approved by Shareholders at the EGM*	
Following the EGM	Announcement of voting result
Tuesday, 19th July 2022	The Capital Reduction becomes effective
Wednesday, 20th July 2022	Last day for trading on a 'cum Capital Reduction' basis* and 'cum Special Dividend' basis
Thursday, 21st July 2022	Trading in Shares on an 'ex Capital Reduction' basis*, and 'ex Special Dividend' basis
Friday, 22nd July 2022	Record Date for Capital Reduction* and Special Dividend
Friday, 29th July 2022	Payment Date of Capital Reduction* and Special Dividend

* If the Capital Reduction is not approved by Shareholders at the EGM, only the Special Dividend will be paid in accordance with the timetable above. Note that the timetable is indicative and is subject to change to the extent permitted under law and the ASX Listing Rules.

LETTER FROM THE CHAIRMAN

Dear Fellow Shareholders

I wanted to take this opportunity to thank you for your ongoing support of the Company during this exciting period in its evolution. Along this journey we have welcomed many new Shareholders to the register and are pleased to have achieved a number of significant milestones in the face of volatile market conditions, all of which have been in pursuit of the generation and delivery of value to you, our Shareholders.

These milestones have included the construction and operation of our Arcadia pilot plant and completion of two comprehensive Optimised Feasibility Studies demonstrating multiple pathways to development, further reducing the project's technical and commercial risks, positioning Arcadia for development. The year concluded with the execution of a competitive tendering process for funding of Arcadia that drew interest from a range of international parties – which as you know, culminated in the sale of our 87% interest in Arcadia to Huayou.

The transaction realised a significant return for Shareholders with net cash proceeds received by Prospect¹ of A\$466 million. After payment of transaction costs, Prospect is preparing to distribute almost 95% of the net proceeds from the transaction to its Shareholders, with approximately A\$34 million to be retained for future activities.

The transaction represented one of the largest in the lithium raw material sector and of national significance to Zimbabwe, heralding a new era for lithium in the country and demonstrates that Zimbabwe is open for business. We wish to thank all involved in the transaction, particularly our local stakeholders, who we retain strong relationships with as we plan to continue to discover and develop projects in the country.

The Board has determined the distribution will be A\$0.96 per share, comprising an unfranked dividend component of A\$0.77 per share (“**Special Dividend**”) and, subject to shareholder approval, a capital reduction component of A\$0.19 per share (“**Capital Reduction**”). I am pleased to report that this distribution is at the top end of the guidance previously disclosed.

The Company has applied for a class ruling from the Australian Tax Office (“**ATO**”) in relation to the Cash Distribution to seek confirmation, among other matters, that:

- the Special Dividend is classed as Conduit Foreign Income, reducing withholding tax for foreign Shareholders from 15% to 0%; and
- no part of the Capital Reduction will be classed as assessable income for Australian taxpayers, therefore Australian Shareholders will not be taxed on this portion of the distribution, to the extent that it is lower than the cost base of their shares.

Prospect currently expects to receive the ATO Class Ruling (or preliminary advice from the ATO in relation to the subject of the ATO Class Ruling) before the Extraordinary General Meeting (“**EGM**”). Prospect will make an announcement on the ASX Market Announcements Platform after it receives the ATO Class Ruling.

The Company has called the EGM on 18th July 2022 for Shareholders to approve the Capital Reduction. The Special Dividend does not require Shareholders’ approval. If the Capital Reduction is approved,

¹ Post payment of Zimbabwean capital gains tax and payment of US\$8 million to Sinomine

the cash payment of \$0.96 per share will be made shortly after the EGM on 29th July 2022 in accordance with the timetable set out in this Notice of Meeting.

If the Capital Reduction is approved by Shareholders, Eligible Shareholders at the Record Date of 5.00pm (Perth time) on Friday, 22nd July 2022 will receive the A\$0.96 per Share Cash Distribution (comprising the Capital Reduction and the Special Dividend), which will be distributed on Friday, 29th July 2022. Should the Resolution not be passed, the Cash Distribution will only include the Special Dividend of A\$0.77 per share and the total amount of the Capital Reduction will be retained by the Company.

Your Board unanimously recommends that Shareholders vote in favour of the Resolution to approve the \$0.19 Capital Reduction, which requires a simple majority of 50% or more of votes cast at the general meeting in favour to be passed.

For effective delivery of the \$0.96 Cash Distribution (if the Capital Return is approved), it is important that Shareholders ensure that their banking details are up to date with Prospect's share registry, Automic. Instructions for Shareholders to access the Automic investor portal and update their details are contained in the accompanying documents.

There will be a time lag between the expected share price adjustment for shares traded on an 'ex Capital Reduction' basis, and 'ex Special Dividend' basis and the receipt of the distribution, which could be up to 3 Business Days by EFT. Should any Shareholder not receive their distribution, please contact Automic using the contact details in the "Shareholder Information Update" section.

Shareholders are also encouraged to speak to their personal tax advisers should they have any questions regarding the potential tax treatment of the distribution.

The Company's future strategy is to be a battery and electrification minerals focused explorer and developer. With the Arcadia transaction now complete, business development and new project generation are our top priorities. The Board believes that, with approximately A\$34 million of available cash and continuation of the current management team, that the Company is extremely well-resourced to deliver on this strategy.

The Board would like to thank all Shareholders for their support through this transition and we look forward to providing updates on the opportunities ahead.

Your prompt attention to this matter is greatly appreciated.

Yours faithfully,

A handwritten signature in black ink that reads "Mark Wheatley". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Mark Wheatley

Non-Executive Chairman

SHAREHOLDER INFORMATION UPDATE

Payment will be made by EFT only. To ensure the prompt payment of the distribution to you, the Company recommends that you ensure your bank and TFN/ABN details are up to date with the Company's share registry, Automic.

If you are an Australian resident or an overseas resident with an Australian bank account, instructions on how to update your details online are set out below. Alternatively, you can use the enclosed form and return it to Automic as noted in the instructions in the form.

If you are an Overseas resident that does not have an Australian bank account, you will need to update your details by completing the enclosed Overseas EFT Form and returning it to Automic as noted in the instructions in the form. Alternatively, the form can be located on Automic's website here: https://automic.com.au/form/Overseas_EFT_Form.pdf.

If you have recently updated your details, you do not need to do anything.

Updating your details online

If you haven't already done so, you will need to register for an online account via our share registry, Automic Group's investor portal.

Please follow the instructions below to sign up for access.

Sign up to access your account

1. Enter the following url into your web browser: investor.automic.com.au/#/signup
2. Select 'Prospect Resources Limited' from the fund name drop down list.
3. Enter your Holding Number (HIN or SRN). This can be found on correspondence such as a holding statement or proxy form from either Automic or your broker.
4. Enter your postcode OR if outside Australia, your country of residence.
5. Tick the box 'I'm not a robot', then select 'Next'.
6. Set up your username and password details.

Important - update your bank & TFN details

Once you have created your account by following the instructions above, you will need to update your bank account details and Tax File Number (TFN)/Australian Business Number (ABN) information by clicking 'my details' under the 'profile' section of your Investor Portal account.

If you have any problems setting up your account access, Automic is ready to help - please contact 1300 288 664 or on +61 (0) 2 9698 5414 if calling from outside or Australia, or email at hello@automic.com.au.

Please note that you will need to ensure your details are updated online or forms are received by Automic Group no later than the Record Date of **Friday, 22nd July 2022**, to be included in the initial payment group.

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 10.30am (Perth time) on Monday, 18th of July 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 10.30am (Perth time) on Saturday, 16th of July 2022.

Resolution

Equal capital reduction

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

“For the purposes of section 256C(1) of the Corporations Act and for all other purposes, approval is given by the Shareholders of the Company to reduce its share capital by equal capital reduction on the Payment Date by A\$0.19 per Share on issue on the Record Date to Eligible Shareholders.”

Majority required

For the Resolution to be passed, it must be approved by a simple majority of the votes cast on the ordinary resolution.

The vote will be conducted by poll.



Dated: 17th June 2022

BY ORDER OF THE BOARD

Ian Goldberg
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 10.30am (Perth time) on Monday, 18th July 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 in relation to the Capital Reduction.

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 SUMMARY

This Explanatory Memorandum contains detailed information regarding the Capital Reduction, as well as the Special Dividend. The following section provides summary answers to some questions you may have and will assist you to locate further detailed information in this Explanatory Memorandum.

Item	Question	Answer	Where to find more information
A. Cash Distribution			
A.1.	What is the Cash Distribution?	<p>If the Capital Reduction is approved by Shareholders at the EGM, Eligible Shareholders will receive a Cash Distribution of A\$0.96 per Share, which comprises:</p> <ul style="list-style-type: none">• A\$0.19 per Share under the Capital Reduction; and• A\$0.77 per Share as a Special Dividend. <p>If the Capital Reduction is not approved by Shareholders at the EGM, only the Special Dividend will be paid, and the Cash Distribution will be the Special Dividend, being A\$0.77 per Share.</p>	Section 3.3
A.2.	What is the Capital Reduction?	The Capital Reduction is a return of A\$0.19 per Share to Eligible Shareholders. The Capital Reduction is an equal capital reduction pursuant to section 256B of the Corporations Act.	Section 3.1(a)
A.3.	What is the Special Dividend?	<p>The Board has resolved to pay an unfranked special dividend of A\$0.77 per Share to Eligible Shareholders on the Payment Date.</p> <p>The Special Dividend is not conditional on the Capital Reduction being approved by the Shareholders at the EGM.</p>	Section 3.2

A.4.	Who is eligible for the Cash Distribution?	<p>Shareholders who are recorded on the Company's Register on the Record Date are eligible to receive the Cash Distribution.</p> <p>Shareholders should be aware that trades made on the ASX settle on a T+2 basis, which means, for settlement of trades to occur before the Record Date so that the buyer of such trades can be registered as the Shareholder of those Shares on the Record Date, the trades must occur on or before Wednesday, 20th July 2022, being 2 Business Days before the Record Date (ie. the last day for trading on a 'cum Cash Distribution' basis).</p>	Important Dates Section 3.4
A.5.	What is the effect of the Cash Distribution?	<p>Prospect has sold its 87% interest in the Arcadia Project, being its main undertaking before completion of the Transaction. As at the time of this Explanatory Memorandum, Prospect's main asset is its cash balance (with most of the cash in hand being the net proceeds from the Transaction).</p> <p>As Prospect will distribute a substantial portion of the net proceeds from the Transaction to its Shareholders under the Cash Distribution, its asset value will be reduced by the total amount to be distributed.</p> <p>Considering the substantial reduction in its asset value as a result of the Cash Distribution, Prospect's Share price is expected to be substantially lower after the last day for trading on a 'cum Cash Distribution' basis (ie. the last day on which trades made will settle before the Records Date, as trades on the ASX settle on a T+2 basis).</p>	Section 3.6
A.6.	When will the Cash Distribution be paid?	The Cash Distribution will be paid on the Payment Date, being Friday, 29th July 2022.	Important Dates Section 3.5
A.7.	How and when will I receive the Cash Distribution?	<p>The Cash Distribution will be paid to Eligible Shareholders by EFT only. It is expected that Shareholders will receive the Cash Distribution within 1-3 Business Days of the Payment Date.</p> <p>Shareholders should register their bank account information with the Share Registry before the Record Date to avoid any delay in payment.</p>	Shareholder Information Update Section 3.5
A.8.	How much cash will Prospect have after the Cash Distribution?	If the Capital Reduction is approved by Shareholders, the total amount of the Cash Distribution will be approximately A\$444.16 million ² . Prospect will retain a cash	Section 3.6(a)

² Assuming that there will be 462,666,589 Shares on issue on the Record Date as a result of all of the Options on issue as at the time of this Notice of Meeting being exercised and the new Shares issued on exercise of the Options being registered before the Record Date.

		balance of approximately A\$34 million after the Cash Distribution to progress battery and electrification metals projects with a primary focus in Zimbabwe, and a secondary focus on the broader sub-Saharan African region.	
A.9.	What are the tax implications of the Cash Distribution?	Section 7 provides a general outline of the Australian income tax and capital gains tax consequences of the Cash Distribution for Shareholders who are Australian tax residents. You should consult with your own tax advisor in light of your particular circumstances.	Section 7
B. Extraordinary General Meeting			
B.1.	When and where will be EGM be held?	The EGM will be held at 10.30 am (Perth time) on Monday, 18th July 2022 at Level 2, 40 Kings Park Road, West Perth, Western Australia 6005.	Important notices and how to vote Notice of Meeting
B.2.	What is the purpose of this EGM?	The purpose of the EGM is to seek Shareholders' approval for the Resolution. The Resolution is to approve the Capital Reduction of A\$0.19 per Share.	Section 3.1(a)
B.3.	What vote is required to approve the Resolution?	For the Resolution to be passed, it must be approved by a simple majority of the votes cast on the ordinary resolution.	Notice of Meeting
B.4.	Am I entitled to vote at the EGM?	If you are registered as a Shareholder on the Company's Register at 10.30am (Perth time) on Saturday, 16th July 2022, you will be entitled to vote at the EGM.	Important notices and how to vote
B.5.	How do I vote?	You may vote in person by attending the EGM or by lodging the completed Proxy Form online, by post or by hand. Your Proxy Form must be received not later than 48 hours before the commencement of the EGM. You may also vote by appointing a corporate representative (if you are a corporate Shareholder) or an attorney.	Important notices and how to vote
B.6.	What do the Directors recommend in relation to the Resolution?	The Directors unanimously recommend that you vote in favour of the Resolution.	Section 4
B.7.	Why should I vote in favour of the Resolution?	The Resolution is to approve the Capital Reduction. The advantages of the Capital Reduction include: <ul style="list-style-type: none"> Shareholders will be directly benefited from the Transaction by receiving a payment of A\$0.19 per Share, in addition 	Section 5

		<ul style="list-style-type: none"> to the Special Dividend; it enables the Company to return excess capital to its Shareholders. 	
B.8.	Why might I consider not voting in favour of the Resolution?	<p>Reasons why you might consider not voting in favour of the Resolution include:</p> <ul style="list-style-type: none"> you may disagree with the Directors unanimous recommendation that Shareholders should vote in favour of the Resolution; you may consider the Company should retain more cash for its operations. However, the Directors are of the opinion that the Company will have sufficient cash reserves after the Capital Reduction (and the Special Dividend) to pay its creditors and to fund its operations; and trading in Prospect Shares may become less liquid and the Share price may be substantially lower following the Cash Distribution. 	Section 6
B.9.	Why only the Capital Reduction is being voted for at the EGM?	<p>The Corporations Act requires that the Capital Reduction to be approved by Shareholders.</p> <p>Payment of the Special Dividend does not require shareholder approval.</p>	<p>Section 3.1(a)</p> <p>Section 3.2</p>
B.10.	What happens if the Capital Reduction is not approved at the EGM?	If the Capital Reduction is not approved by Shareholders at the EGM, only the Special Dividend will be paid, and the Cash Distribution will be the Special Dividend, being A\$0.77 per Share.	Section 3.3
C. Prospect's future plans			
C.1.	How much cash will Prospect have after the Cash Distribution?	<p>If the Capital Reduction is approved by Shareholders at the EGM (ie. the Cash Distribution will comprise both the Capital Reduction and the Special Dividend), Prospect will have a cash balance of approximately A\$34 million.</p> <p>If the Capital Reduction is not approved by Shareholders at the EGM, Prospect will have a cash balance of approximately A\$122 million³.</p>	Section 3.6(a)
C.2.	What will Prospect do next?	The Company's future strategy is to be a battery and electrification minerals focused explorer and developer. Business development and new project generation are the Company's top priorities. The Board believes that, with approximately A\$34 million of available cash	Section 8

³ See footnote 2.

and continuation of the current management team, that the Company is well-resourced to deliver on this strategy.

D. Other

- | | | | |
|------|---|--|-----------|
| D.1. | What if I have other questions about the Cash Distribution? | You should read this Notice of Meeting (including the Explanatory Memorandum) carefully as it contains important information about the Resolution (as well as the Cash Distribution generally).

If you have any other questions about the Resolution or the Cash Distribution, please contact the Joint Company Secretary on +61 405 524 960. | Enquiries |
|------|---|--|-----------|

2 BACKGROUND

On 23 December 2022, the Company, through its 100% owned subsidiary PMPL, entered into a Share Sale and Purchase Agreement with Huayou and its parent company, new energy lithium-ion battery material producer, Huayou Cobalt, for the sale of its 87% shareholding in PLZ, owner of the Arcadia Project in Zimbabwe, for a cash consideration of approximately US\$377.8 million.

The Transaction completed on 20 April 2022. After payment of US\$26.8 million capital gains tax in Zimbabwe and US\$8 million to Sinomine in relation to the termination of the offtake agreement between Prospect and Sinomine⁴, the Company received US\$342.9 million at completion of the Transaction.

These net proceeds were converted to approximately \$A466m at the exchange rate at the time.

As previously announced by the Company, it has been Prospect's intention to distribute a substantial portion of the net proceeds from the Transaction to its Shareholders, and it sought a class ruling from the ATO to obtain certainty on the Australian tax outcomes for the Company and its Shareholders of such distributions.

The Board expects to receive the ATO Class Ruling (or preliminary advice in relation to the subject of the ATO Class Ruling) before the EGM.

The Company is holding this EGM for Shareholders to consider and, if thought fit, pass the Resolution to approve the Capital Reduction.

3 CASH DISTRIBUTION

3.1 Capital Reduction

(a) Introduction

Prospect is seeking Shareholders' approval for the Capital Reduction of A\$0.19 per Share by passing the Resolution.

A capital reduction is a reduction of a company's share capital by returning part of the share

⁴ See ASX announcement dated 18 January 2022 for further information in relation to the arrangement with Sinomine under the termination deed between Prospect and Sinomine in relation to the offtake agreement.

capital to its Shareholders.

Under section 256B(1) of the Corporations Act, a company may reduce its share capital if the following requirements are satisfied:

- the capital reduction must be fair and reasonable to the company's shareholders as a whole;
- the capital reduction must not materially prejudice the company's ability to pay its creditors; and
- the capital reduction must be approved by ordinary resolution of shareholders under section 256C of the Corporations Act.

For the purposes of section 256B(2) of the Corporations Act, the Capital Reduction is an equal capital reduction because:

- it relates only to ordinary Shares in the Company;
- it applies to each Shareholder in proportion to the number of Shares they hold; and
- the terms of the Capital Reduction are the same for each Shareholder.

(b) Total amount of Capital Reduction

The Capital Reduction will be A\$0.19 per Share which equates to approximately A\$87.91 million in aggregate⁵.

(c) Directors' opinion

The Directors are of the opinion that the Capital Reduction is fair and reasonable to the Shareholders as a whole, as it will:

- enable the Company to return capital to its Shareholders, when that capital is in excess of the Company's current requirements; and
- apply to all Shareholders who are registered on the Record Date equally, in proportion to the number of Shares they hold on the Record Date.

The Directors have reviewed and considered the Company's financial position following completion of the Transaction, including its assets, liabilities, cashflow and capital requirements, especially taking into account the Special Dividend, and are of the opinion that the Capital Reduction will not materially prejudice the Company's ability to pay its creditors.

3.2 Special Dividend

The Directors have resolved to pay a Special Dividend of A\$0.77 per Share on the Payment Date to Shareholders registered on the Company's Register on the Record Date.

The Special Dividend will be unfranked.

The Special Dividend does not require Shareholders' approval.

The Special Dividend is not conditional on the Capital Reduction being approved by the Shareholders at the EGM, which means that even if the Capital Reduction is not approved by the Shareholders at the EGM, the Special Dividend will be paid on the Payment Date.

3.3 Cash Distribution

If the Capital Reduction is approved by Shareholders at the EGM, Eligible Shareholders will

⁵ See footnote 2.

receive a Cash Distribution of A\$0.96 per Share, which comprises:

- A\$0.77 per Share under the Capital Reduction; and
- A\$0.19 per Share as the Special Dividend,

and the aggregate amount of the Cash Distribution will be approximately A\$444.16 million⁶.

If the Capital Reduction is not approved by Shareholders at the EGM, only the Special Dividend will be paid, and the Cash Distribution will be the Special Dividend, being A\$0.77 per Share. The aggregated amount of the Cash Distribution will be approximately A\$356.25 million⁷.

3.4 Eligible Shareholders

Only Shareholders recorded on the Company's Register on the Record Date are eligible to receive the Cash Distribution.

In accordance with ASX Listing Rules, the Company has set the Record Date to be 5pm (Perth time) on Friday, 22nd July 2022.

Shareholders should be aware that trades made on the ASX settle on a T+2 basis, which means, for settlement of trades to occur before the Record Date so that the buyer of such trades can be registered as the Shareholder of those Shares on the Record Date, the trades must occur on or before Wednesday, 20th July 2022, being 2 Business Days before the Record Date (ie. the last day for trading on a 'cum Cash Distribution' basis).

3.5 Payment of the Cash Distribution

The Cash Distribution will be paid on the Payment Date, being Friday, 29th July 2022.

The Cash Distribution will be paid to Eligible Shareholders by EFT only. It is expected that Shareholders will receive the Cash Distribution within 1-3 Business Days of the Payment Date.

Shareholders can register or update their bank account information with the Share Registry before the Record Date by following the instructions as noted on page 8 ("Shareholder Information Update") of this Notice of Meeting.

3.6 Effect of the Cash Distribution

(a) Effect on financial position

Prospect has sold its 87% interest in the Arcadia Project, which was its main undertaking before completion of the Transaction. As at the time of this Explanatory Memorandum, Prospect's main asset is its cash balance (with most of the cash in hand being the net proceeds from the Transaction).

As Prospect will distribute a substantial portion of the net proceeds from the Transaction to its Shareholders under the Cash Distribution, its asset value will be reduced by the total amount to be distributed.

If the Capital Reduction is approved by the Shareholders, the Company's cash reserves after the Cash Distribution will be approximately A\$34 million, which the Company expects will be sufficient to pay its creditors after the Cash Distribution and to fund its operations.

The financial effects on the consolidated financial statements of the Company are expected to

⁶ See footnote 2.

⁷ See footnote 2.

be as follows⁸:

Estimated effect on:	If the Capital Reduction is approved (A\$ million)	If the Capital Reduction is not approved (A\$ million)	Comment
Total assets	Reduced by \$444.16	Reduced by \$356.25	Being the total amount of the Cash Distribution paid
Total equity interests	Reduction of contributed equity by \$87.91	N/A	Being the total amount of the Capital Reduction
Annual revenue	N/A	N/A	There is no impact on annual revenue
Annual expenditure	N/A	N/A	There is no impact on annual expenditure
Annual profit before tax	N/A	N/A	There is no impact on annual profit after tax

(b) Effect on capital structure

The Company has 445,666,589 Shares and 17,000,000 Options on issue as at the date of this Explanatory Memorandum.

If the Capital Reduction proceeds, for the purposes of ASX Listing Rule 7.20, the Company's share capital will be reduced by A\$0.19 per Share, which amounts to approximately A\$87.91 million and the Company's contributed equity capital will be reduced from A\$104.4 million to approximately A\$16.5 million⁹.

No Shares will be cancelled and the number of Shares held by Shareholders will not change as a result of the Capital Reduction. No fractional entitlements will arise from the Capital Reduction. All Shares issued by the Company remain fully paid.

There is no effect on the Company's capital structure as a result of the Special Dividend.

(c) Effect on control

The Cash Distribution will not have any effect on control of the Company as the number of Shares held by Shareholders will not change as a result of the Capital Reduction.

(d) Effect on Share price

Considering the substantial reduction in its asset value as a result of the Cash Distribution, Prospect's Share price is expected to be substantially lower after the last day for trading on a 'cum Cash Distribution' basis (ie. the last day on which trades made will settle before the Records Date, as trades on the ASX settle on a T+2 basis).

⁸ See footnote 2.

⁹ See footnote 2.

3.7 Option holders

As at the date of this Notice of Meeting, the Company has 17,000,000 Options on issue, with exercise price between A\$0.21 and A\$0.27 per Share, expiring between 5 November 2023 and 3 February 2025. Holders of Options will not be entitled to participate in the Cash Distribution unless they exercise their Options and are issued Shares in accordance with the terms of the Options prior to the Record Date.

4 DIRECTORS' RECOMMENDATION

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

Each Director intends to vote all Shares held or controlled by them in favour of the Resolution to be considered at the EGM.

5 REASONS TO VOTE IN FAVOUR OF THE RESOLUTION

The Resolution is to approve the Capital Reduction. The advantages of the Capital Reduction include:

- Shareholders will effectively directly benefit from the Transaction by receiving a payment of A\$0.19 per Share, in addition to the Special Dividend; and
- it enables the Company to return excess capital to its Shareholders.

6 REASONS TO VOTE AGAINST THE RESOLUTION

Reasons why you might consider not voting in favour of the Resolution include:

- you may disagree with the Directors' unanimous recommendation that Shareholders should vote in favour of the Resolution;
- you may consider the Company should retain more cash for its operations. However, the Directors are of the opinion that the Company will have sufficient cash reserves after the Capital Reduction (and the Special Dividend) to pay its creditors and to fund its operations; and
- trading in Prospect Shares may become less liquid and the Share price may be substantially lower following the Cash Distribution.

7 TAX IMPLICATIONS OF CASH DISTRIBUTION FOR SHAREHOLDERS

Prospect has applied to the ATO for a class ruling to confirm the Australian income tax outcomes of the Cash Distribution for Prospect and its Shareholders who hold their shares on 'capital account'.

In the ATO Class Ruling application, Prospect has requested the ATO to rule on the following anticipated Australian income tax outcomes. However, the final ATO Class Ruling may be different from what is set out below.

At the date of this Notice of Meeting, the Board understands that the class ruling application is substantially progressed, and Prospect expects to receive the final ATO Class Ruling (or preliminary advice from the ATO in relation to the subject of the ATO Class Ruling) prior to the EGM. Prospect will notify Shareholders as soon as the ruling is finalised and its outcomes.

Please note that information included in this section does not consider the individual circumstances of each Shareholder, and Shareholders should seek their own specific advice on the outcomes of the Cash Distribution.

Capital Reduction component:

- The Capital Reduction component should not constitute a “dividend” for Australian income tax purposes.
- The Capital Reduction component should give rise to CGT Event G1 for Shareholders.
- If CGT Event G1 applies, Australian tax resident Shareholders should:
 - have the tax cost base of their Shares in Prospect reduced by the amount of the Capital Reduction; or
 - to the extent the Capital Reduction component exceeds the tax cost base a full reduction in the tax cost base of their Shares and a *prima facie* capital gain equal to the excess.
- Whether qualifying Australian tax resident Shareholders may treat a capital gain made when CGT Event G1 happened as a discount capital gain if they acquired their Prospect shares at least 12 months before the payment date provided the conditions in Subdivision 115-A of ITAA 1997 are satisfied.
- Non-Australian tax resident Shareholders should disregard any capital gain from CGT event G1 contingent on their specific facts and circumstances.

Special Dividend component – Australian tax resident Shareholders

- The Special Dividend component will be an unfranked dividend.
- Australian tax resident Shareholders will include the Special Dividend as assessable income in their tax returns for the relevant income year.

Special Dividend component – Prospect and Non-Australian tax resident Shareholders

- The Special Dividend is expected to be declared from Conduit Foreign Income.
- Confirmation a dividend from Conduit Foreign Income is not subject to Australian dividend withholding tax and is *prima facie* non-assessable and non-exempt income in the hands of non-Australian resident Shareholders (who have no taxable presence in Australia).

8 PROSPECT’S PLANS POST DISTRIBUTION

If the Capital Reduction is approved by Shareholders, Prospect will retain approximately A\$34 million, which will be used to progress battery and electrification metals projects with a primary focus in Zimbabwe, and with a broader focus on the broader sub-Saharan African region.

The Company’s future strategy is to be a battery and electrification minerals focused explorer and developer. Business development and new project generation are the Company’s top priorities. The Board believes that, with approximately A\$34 million of available cash and continuation of the current management team, that the Company is well-resourced to deliver on this strategy.

9 OTHER INFORMATION

9.1 Directors’ interests

No Director will receive a payment or benefit of any kind as a result of the Cash Distribution, 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 this Notice of Meeting.

Director	Number of Shares	Number of Options
M Wheatley	645,162	2,000,000
H Greaves	5,517,954	0
G Fahey	1,025,000	0
Zed Rusike	3,040,374	0
D Shetty	741,039	0
H Chen	6,913,744	0
S Hosack	6,127,981	1,500,000

As at the date of this notice, all Directors' Options have vested. The exercise price for the Options held by M Wheatley is A\$0.24 per Share. The exercise price for the Options held by S Hosack is A\$0.26 per Share. 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.

9.2 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 to vote in favour of the Resolution.

9.3 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.

9.4 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 of implementation of the Cash Distribution, 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.

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.

ATO Class Ruling means a class ruling from the ATO to confirm that, among other things:

- (a) no part of the Capital Reduction will be assessable as a dividend for Australian taxpayers, therefore Australian Shareholders will not be taxed on this portion of the Cash Distribution, to the extent that it is lower than the cost base of their shares; and
- (b) the Special Dividend is classed as Conduit Foreign Income, reducing withholding tax for foreign Shareholders from 15% to 0%.

Board means the current board of Directors of the Company.

Business Day has the meaning given in the ASX Listing Rules.

Capital Reduction means an equal reduction of the Company’s share capital of A\$0.19 per Share in accordance with section 256C of the Corporations Act.

Cash Distribution means the cash distribution to be made to Eligible Shareholders under the Capital Reduction and the Special Dividend. If the Resolution is approved by Shareholders at the EGM, the total amount of the Cash Distribution will be A\$0.96 per Share. If the Capital Reduction is not approved by Shareholders at the EGM, the Cash Distribution will be the Special Dividend only.

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

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 ‘A\$’ means Australian dollars.

Eligible Shareholders means the Shareholders recorded on the Company’s Register on the Record Date.

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.

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

Huayou Cobalt 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 17 June 2022, including the Explanatory Memorandum.

Option or **Prospect Options** means an option to acquire a Share in the Company, and **Optionholder** means the holder of Options.

Payment Date means Friday, 29th July 2022.

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 (UEN 201327565H).

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

Record Date means 5pm (Perth time) on Friday, 22nd July 2022.

Register means the register of Shareholders maintained by the Company in accordance with 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 Registry means Automatic Registry Services.

Shareholder means a holder of a Share.

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

Special Dividend means an unfranked special dividend of A\$0.77 per Share which the Board has resolved to pay to the Eligible Shareholders on the Payment Date.

Transaction means the sale by PMPL of its 87% shareholding in PLZ to Huayou which completed on 20 April 2022.