



Binding Agreements Executed for Sale of Arcadia Lithium Project to Zhejiang Huayou Cobalt

HIGHLIGHTS:

- Binding agreements executed for the sale of Prospect's 87% interest in the Arcadia Lithium Project (Arcadia) to a subsidiary of new energy lithium-ion battery material producer, Zhejiang Huayou Cobalt Co., Limited (Huayou), for approximately US\$377.8 million (A\$528.4 million¹) in upfront cash consideration (Transaction)
- Attractive outcome for Prospect shareholders, with consideration equating to approximately A\$1.23 per Prospect ordinary share,² representing a premium to Prospect's 10-day VWAP³ of approximately 78%
- Transaction with a world-class partner vindicates the strong support of the Government of Zimbabwe for Arcadia, and highlights the benefits flowing from its Special Economic Zone status, with the potential to put Zimbabwe firmly in the electric vehicle supply chain
- Key conditions precedent to completion of the Transaction include:
 - Prospect shareholder approval;
 - Requisite Chinese regulatory approvals being obtained by Huayou; and
 - Other conditions precedent set out under "Conditions Precedent" below.
- Deposit of US\$20 million immediately payable by Huayou, non-refundable in certain circumstances where the Transaction does not complete
- Break fee of US\$20 million payable by Prospect in certain circumstances where the Transaction does not complete
- Subject to, and following, completion of the Transaction, Prospect expects to retain a cash balance of up to US\$50 million to progress its other battery metals projects in Zimbabwe, and potentially pursue new battery metals growth opportunities globally
- Prospect intends to distribute the remaining net proceeds to its shareholders
- Subject to all conditions precedent being satisfied or waived, Prospect currently anticipates the Transaction completing in late Q1 / early Q2 2022

¹Based on AUD:USD of 0.715.

²Based on AUD:USD of 0.715 and 428,523,535 ordinary shares on issue, before transaction costs and tax.

³10-day Value Weighted Average Price (VWAP) up to close of trade on Wednesday, 22 December 2021 of \$0.69

Prospect Resources Limited (ASX: PSC, FRA:5E8) (**Prospect** or **the Company**) is pleased to advise that it has, through its 100% owned subsidiary Prospect Minerals Pte Ltd (**PMPL**), executed a binding Share Sale Agreement (**SSA**) 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**) in Zimbabwe (**Transaction**).

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, equating to approximately A\$1.23 per Prospect ordinary share.⁴

The Transaction represents the culmination of the strategic partnership process undertaken by Prospect since August 2021.⁵

As announced in late November,⁶ Prospect received seven non-binding proposals for the advancement of Arcadia from a range of international parties. These proposals encompassed structures including development joint ventures, offtake prepayment debt funding and acquisition of Prospect's interest in Arcadia.

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

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 Transaction with Prospect completing.

Commenting on the Transaction, Prospect Managing Director and CEO, Sam Hosack, said:

"The entire Prospect team is delighted with this outcome. It is the culmination of a process that gained global traction and generated inbound interest amongst potential partners for the world-class Arcadia Lithium Project.

The Prospect Board has undertaken a detailed evaluation of all proposals received through this competitive process. The conclusion of this evaluation is that the Huayou proposal offers a highly attractive risk-adjusted proposition for Prospect shareholders, particularly when considered against the timing and execution risks attached to development and operation of the Arcadia Project either under Prospect's ownership or in joint venture.

I would like to thank Huayou for their professionalism throughout the process and in arriving at this commercial outcome. My sincere gratitude also to the Government of Zimbabwe, and all relevant ministries, departments and authorities, without whose strong support we could not have attracted a counterparty of Huayou's standing and experience. Lastly, I would like to thank our financial and legal advisers for their hard work and diligence to-date.

We look forward to working with Huayou and relevant stakeholders within the Government of Zimbabwe to satisfying the conditions precedent, with a view to closing the Transaction in late in Q1 or early in Q2 of 2022."

⁴ Based on AUD:USD of 0.715 and 428,523,535 ordinary shares on issue, before transaction costs and tax.

⁵ See Prospect's ASX release dated 23 August 2021.

⁶ See Prospect's ASX release dated 22 November 2021.

Chen Xuehua, Chairman of Huayou, commented:

“Following a detailed due diligence process and significant engagement with Prospect in recent months, Huayou is very pleased to announce this Transaction today.

We look forward to working with Prospect to complete the Transaction and engaging with the Zimbabwean Government ahead of planned development activities at Arcadia in the near-term. The acquisition of Arcadia complements our existing battery metal mining operations in southern Africa and represents a logical transaction for Huayou as we continue to build a new energy materials business division.”

Conditions Precedent

Key conditions precedent to completion of the Transaction include:

1. Prospect shareholder approval under ASX Listing Rule 11.2;
2. Requisite Chinese regulatory approvals being obtained by Huayou;
3. Requisite Zimbabwean regulatory approvals and exemptions being obtained by both parties, including: (i) exchange control approvals, (ii) merger control approvals, (iii) capital gains tax clearance, and (iv) PLZ obtaining necessary amendments to its Special Economic Zone Licence;
4. PLZ’s existing offtake agreement (to which Prospect is also a party) (**Existing Offtake**) being terminated;
5. No material adverse change to PLZ’s key mining tenements, environmental impact assessment certificate or the terms of its Special Economic Zone Licence;
6. 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 SSA,⁷ then either Prospect or Huayou may terminate the agreement.

In relation to Prospect’s shareholder approval, the directors of Prospect unanimously support the Transaction and recommend all shareholders vote in favour of it. Prospect is required under the SSA to convene an Extraordinary General Meeting (**EGM**) of Prospect shareholders within 8 weeks of the SSA. Prospect expects the notice of meeting will be sent to shareholders in mid to late January 2022.

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

Deposit

Under the terms of the SSA, Huayou will immediately pay a deposit of US\$20 million to a trust account nominated by Prospect. This deposit will be forfeited by Huayou if the Transaction does not complete due to any of the following:

- Requisite Chinese regulatory approvals not being obtained;
- Huayou electing to terminate the SSA 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);
- Huayou or its guarantor being or becoming insolvent.

⁷ 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.

Exclusivity and Break Fee

Under the SSA, Prospect has agreed to a standard exclusivity regime prior to completion of the Transaction, including cessation of any other existing discussions, no shop, no talk and no provision of due diligence. This regime is subject to a standard fiduciary out exception.

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

- a competing transaction completing within 12 months, following the competing transaction being recommended by Prospect directors;
- any director of Prospect changing, withdrawing or adversely qualifying their recommendation of the Transaction where there is no competing proposal and Prospect shareholders do not approve the 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);
- Prospect or PMPL being or becoming insolvent.

Other Matters

Huayou's obligations under the SSA have been guaranteed by its parent company and New Energy Lithium-ion Battery Material Producer, Zhejiang Huayou Cobalt Co., Limited. PMPL's obligations are guaranteed by Prospect.

Prospect has agreed with Huayou that, for a period of 12 months from signing the SSA, neither it nor any member of the Prospect group of companies 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 tenements, except for an excluded area known as the 'Step Aside' claim which is already held by a Prospect group company.

Under the terms of SSA, and consistent with the basis on which Prospect conducted the strategic partnership process, Prospect has agreed to terminate PLZ's Existing Offtake (and an ancillary agreement), and to indemnify Huayou for any loss it may suffer in connection with that termination. If that arrangement is not terminated prior to completion and Huayou waives the associated condition precedent, a contingency amount will be set aside in a Prospect bank account to secure any liability that Prospect may have under that indemnity. Prospect believes that it is entitled to terminate the Existing Offtake.

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

Prospect's Future

Subject to the Transaction completing, the proceeds to be received by PMPL are expected to be subject to Zimbabwean capital gains tax. Capital gains tax in Zimbabwe is levied at 5% of the gross capital amount for assets acquired prior to 22 February 2019 and 20% of the capital gain for assets acquired on or after 22 February 2019. 70% of Prospect's 87% shareholding was acquired before 22 February 2019 and 17% was acquired after. Prospect will provide an update to the market once the capital gains tax amount has been assessed by the Zimbabwean revenue authorities.

Prospect expects to retain a cash balance of up to US\$50 million to progress its other battery metals projects in Zimbabwe, and potentially pursue new battery metals growth opportunities globally.

Prospect intends to distribute the remaining post-tax, post-transaction costs sale proceeds to its shareholders. To the extent possible, the Company will seek to structure the distribution of these proceeds to shareholders in a tax-efficient manner.

Advisers

Prospect's financial advisers are Azure Capital and Vermilion Partners, and its legal advisers are King & Wood Mallesons in Australia and Manokore Attorneys in Zimbabwe.

Huayou's exclusive financial adviser is Canaccord Genuity, and its legal advisers are Minter Ellison in Australia, Jingtian & Gongcheng in China, Scanlen & Holderness in Zimbabwe and Morgan Lewis Stamford in Singapore.

This release was authorised by Sam Hosack, Managing Director and CEO

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

Prospect Resources Limited (ASX: PSC, FRA:5E8) is an ASX listed lithium company based in Perth with operations in Zimbabwe. Prospect's flagship asset is the Arcadia Lithium Project located on the outskirts of Harare. Arcadia represents a globally significant hard rock lithium resource and is being rapidly advanced by Prospect's experienced team. It represents one of the most advanced lithium projects globally, with an Optimised Definitive Feasibility Study completed and offtake agreements executed.

About Zhejiang Huayou Cobalt Co., Ltd

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 precursor, 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 continues to execute on its proactive business development strategy to build a new energy materials business division, which includes the provision of significant investments in the lithium resources sector. Huayou has been operating two copper and cobalt mines in the Democratic Republic of Congo since 2007 and is investing in four nickel and cobalt projects in Indonesia with an expected annual production of 255kt of nickel and 20kt of cobalt contained in products by 2024.

About Lithium

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

Caution Regarding Forward-Looking Information

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

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