



## SHAREHOLDER QUERIES ON PROPOSED DISTRIBUTION POST COMPLETION.

Following queries from several shareholders, Prospect Resources Limited (**Prospect** or the **Company**) provides the following additional commentary relating to the proposed distribution to shareholders, currently estimated by Prospect to be in the range of A\$430-450 million (**Proposed Distribution**), which is subject to completion of the transaction (**Transaction**) with Zhejiang Huayou Cobalt Co., Limited (**Huayou**), as further described in the Notice of Meeting published on 25 January 2022 (**Notice of Meeting**).

Whilst the structure of the Proposed Distribution has not been finally determined, broadly speaking it is anticipated that the Proposed Distribution may be undertaken by one of the following mechanisms:

1. Return of capital (**ROC**); or
2. Equal access share buy-back, where an off-market buy-back offer will be made to all shareholders to buy back the same percentage of each shareholders' ordinary shares (**Off-Market Share Buy-Back**); or
3. An on-market buy-back, which is a buy-back offer made on the ASX in the ordinary course of trading. Although it is also available to all shareholders, it is essentially a "first come, first served" offer (**On-Market Share Buy-Back**).

Each structure has different tax, legal and commercial considerations. The following commentary is limited to the potential tax consequences of each structure, which will be validated with the Australian Taxation Office (**ATO**) via a class ruling process.

### ROC and Off-Market Share Buy-Back

Both the ROC and Off-Market Share Buy-Back will likely involve two components for Australian tax purposes:

1. A return of capital component. This is an amount debited to the Company's share capital account.
2. An unfranked dividend component. Prospect has not paid Australian corporate income tax in the past and is not expecting to pay Australian corporate income tax in relation to the Transaction. As a result, franking credits will not be available to frank the dividend component.

The tax outcomes for a Prospect shareholders will be dependent on each shareholder's specific circumstances. However, Prospect makes the following general comments regarding the potential Australian tax implications:

- Prospect expects the return of capital component to be limited to 25% or less of the Proposed Distribution, based on the current capital position of the Company. The corollary of this is that the unfranked dividend component will be 75% or more, as was noted in the Notice of Meeting.
- The return of capital component is a capital transaction. Shareholders, who hold their shares on capital account, will realise either a capital gain if the return of capital component distributed exceeds their tax cost base, or a reduction to their tax cost base if the return of capital is less than their cost base.
- In relation to the unfranked dividend component:

- Australian resident shareholders will prima facie be subject to Australian income tax at their applicable tax rate.
- Prospect intends the unfranked dividend component to be comprised of *Conduit Foreign Income*. If this occurs, non-Australian tax residents, with no taxable presence in Australia should not be subject to any further Australian tax on the unfranked dividend component. Non-Australian tax resident shareholders may pay income tax in their country of tax residence, based on their own specific circumstances.

### On-Market Share Buy-Back

In On-Market Buy-Backs that are qualifying for tax purposes,<sup>1</sup> no part of the buy-back price is deemed to be a dividend in shareholders hands for Australian tax purposes. However, in that case, Prospect would be subject to franking deficit tax which would reduce the cash available for distribution to all Prospect shareholders.

### Prospect's future plans and timing

As noted in the Notice of Meeting, at present, the Board of Prospect has not made any decisions as to which structure for the Proposed Distribution will be pursued.

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

- Finalisation of the quantum of capital gains tax in Zimbabwe and Transaction costs payable
- Conversion of the net sale proceeds from US dollars to Australian dollars
- Receipt of final advice (legal and tax) regarding the Proposed Distribution
- Receipt of a tax ruling from the ATO, which will set out the Australian tax treatment of the Proposed Distribution for the main classes of Prospect's shareholders

Payment of the Proposed Distribution will occur at the latest following receipt of any additional shareholder approvals required to implement the Proposed Distribution, which will be sought after the ATO tax ruling has been received.

Prospect expects the Proposed Distribution to be made in mid-2022, after 30 June 2022.

### Disclaimer

Note that the above is general in nature only and the tax consequences of the Proposed Distribution will vary depending on each shareholder's particular circumstances and is not provided by way of advice. Shareholders should consider their own position and seek appropriate advice from their legal, accounting or financial adviser.

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

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<sup>1</sup> Note that On-Market Share Buy-Back that is not qualifying is deemed to be an Off-Market Share Buy-Back.

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

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

## **About Lithium**

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

## **Caution Regarding Forward-Looking Information**

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

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