

21 July 2016

# ASX ANNOUNCEMENT



## NOTICE OF GENERAL MEETING

Please find attached the following documentation that are today being despatched to all shareholders of Avalon Minerals Limited ('Avalon' or 'Company').

1. Notice of General Meeting
2. Explanatory Memorandum

A personalised Proxy form will also be provided with the meeting material.

An electronic copy of the Notice of Meeting material is available on the Company's website.

Yours faithfully

Gavin Leicht  
Company Secretary  
Avalon Minerals Limited

**For further information please visit [www.avalonminerals.com.au](http://www.avalonminerals.com.au) or contact:**

Mr Malcolm Norris  
Managing Director  
Avalon Minerals Ltd  
Tel: 07 3368 9888  
Email: [malcolm.norris@avalonminerals.com.au](mailto:malcolm.norris@avalonminerals.com.au)

**ASX: AVI**

### REGISTERED OFFICE

Avalon Minerals Ltd  
ABN 68 123 184 412  
9 Gardner Close  
Milton Qld 4064 Australia  
P + 61 7 3368 9888  
F + 61 7 3368 9899  
[info@avalonminerals.com.au](mailto:info@avalonminerals.com.au)  
[www.avalonminerals.com.au](http://www.avalonminerals.com.au)



**AVALON MINERALS LIMITED**  
**ACN 123 184 412**

---

**NOTICE OF GENERAL MEETING**  
**EXPLANATORY MEMORANDUM**  
**PROXY FORM**

---

**Date of Meeting**

Tuesday  
23 August 2016

**Time of Meeting**

2.00 pm  
(Qld time)

**Place of Meeting**

Avalon Minerals  
Limited  
Gardner House  
9 Gardner Close  
Milton Qld 4064

**NOTICE OF GENERAL MEETING  
AVALON MINERALS LIMITED  
ACN 123 184 412**

Notice is hereby given that a General Meeting of Shareholders of Avalon Minerals Limited (**Company**) will be held at 2.00 pm (Qld time) on Tuesday, 23 August 2016 at the registered office of Avalon Minerals Limited, Gardner House, 9 Gardner Close, Milton, Queensland.

**RESOLUTION 1: Ratification of prior issue of Shares under Listing Rule 7.1**

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

*“That, for the purpose of Listing Rule 7.4 and for all other purposes, Shareholders ratify the prior issue and allotment of 1,000,000 Shares to Nortec Minerals Corp under the Heads of Agreement for the earn-in to the Tammela lithium tenements as set out in the Explanatory Memorandum.”*

**RESOLUTION 2: Ratification of prior issue of Shares under Listing Rule 7.1**

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

*“That, for the purpose of Listing Rule 7.4 and for all other purposes, Shareholders ratify the prior issue and allotment of 56,315,000 Shares at an issue price of \$0.016 (1.6 cents) to the allottees as set out in the Explanatory Memorandum.”*

**RESOLUTION 3: Ratification of prior issue of placement Shares under Listing Rule 7.1A**

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

*“That, for the purpose of Listing Rule 7.4 and for all other purposes, Shareholders ratify the prior issue and allotment of 38,210,000 Shares at an issue price of \$0.016 (1.6 cents) to the allottees as set out in the Explanatory Memorandum.”*

**RESOLUTION 4: Approval to issue up to 36,250,000 new Shares**

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

*“That, for the purposes of Listing Rule 7.1 and for all other purposes, Shareholders approve the allotment and issue of up to 36,250,000 new Shares at an issue price of \$0.016 (1.6 cents) to the allottees as set out in the Explanatory Memorandum.”*

**RESOLUTION 5: Approval to issue up to 130,775,000 new Options**

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

*“That, for the purposes of Listing Rule 7.1 and for all other purposes, Shareholders approve the allotment and issue of up to 130,775,000 new Options on the terms and conditions set out in the Explanatory Memorandum.”*

**RESOLUTION 6: Approval to issue 10,000,000 new Options**

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

*“That, for the purposes of Listing Rule 7.1 and for all other purposes, Shareholders approve the allotment and issue of 10,000,000 new Options on the terms and conditions set out in the Explanatory Memorandum.”*

**RESOLUTION 7: Approval for –issue of Shares and Options to Director - Mr Malcolm Norris**

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

*“That, for the purpose of Listing Rule 10.11 and for all other purposes, Shareholders approve the issue of up to 625,000 Shares at an issue price of \$0.016 (1.6 cents) and 625,000 Options at an exercise price of \$0.03 (3 cents) to Mr Malcolm Norris (or his nominee), a director of the Company, as set out in the Explanatory Memorandum.”*

**RESOLUTION 8: Approval for –issue of Shares and Options to Director - Mr Graham Ascough**

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

*“That, for the purpose of Listing Rule 10.11 and for all other purposes, Shareholders approve the issue of up to 937,500 Shares at an issue price of \$0.016 (1.6 cents) and 937,500 Options at an exercise price of \$0.03 (3 cents) to Mr Graham Ascough (or his nominee), a director of the Company, as set out in the Explanatory Memorandum.”*

**RESOLUTION 9: Approval to issue 5,000,000 Shares**

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

*“That, for the purpose of Listing Rule 7.1 and for all other purposes, Shareholders approve the allotment and issue of 5,000,000 Shares under the Heads of Agreement to acquire the Swedish lithium tenements to the allottees as set out in the Explanatory Memorandum.”*

**RESOLUTION 10: Issue of Performance Rights to Mr Malcolm Norris**

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

*“That, for the purposes of section 208 of the Corporations Act 2001 (Cth), Listing Rule 10.14 and for all other purposes, approval is given to the issue by the Company of a total of 2,089,000 Performance Rights under the Employee Performance Rights Plan to Mr Malcolm Norris (or his nominee) on the terms and conditions set out in the Explanatory Memorandum.”*

Please refer to the Explanatory Memorandum attached to the Notice of Meeting for more information on the Resolutions.

**DATED 19 July 2016  
BY ORDER OF THE BOARD  
AVALON MINERALS LIMITED**



**Gavin Leicht  
Company Secretary**

## NOTES

### 1. Voting entitlement

In accordance with regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), the Board has determined that the Shareholders who are on the Company's share register at 7.00 pm (Qld time) on 21 August, 2016 (being not more than 48 hours before the Meeting (Qld time)) will be taken, for the purposes of the General Meeting, to be entitled to attend and vote at the Meeting. If you are not the registered holder of a relevant share at that time, you will not be entitled to vote at the meeting.

### 2. Voting at the meeting

Ordinary resolutions require the support of more than 50% of the votes cast. Special resolutions require the support of at least 75% of the votes cast. All the Resolutions at this Meeting are ordinary resolutions.

Every resolution arising at this General Meeting will be decided in the first instance by a show of hands. A poll may be demanded in accordance with the Company's Constitution.

On a show of hands, every Shareholder who is present in person or by proxy, representative or attorney, will have one vote. Upon a poll, every person who is present in person or by proxy, representative or attorney will have one vote for each Share held by that person.

### 3. Voting Exclusion Statements

(a) Resolutions 1 to 3

The Company will disregard any votes cast on Resolutions 1 to 3 by:

- an Allottee who participated in the issue; and
- any associate of the Allottee (or those Allottees).

However, the Company will not disregard any votes cast on this Resolution if:

- It is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- It is cast by the person chairing the meeting as proxy for a person who is entitled to vote in accordance with a direction on the proxy form to vote as the proxy decides.

(b) Resolutions 4, 5, 6 and 9

The Company will disregard any votes cast on Resolutions 4, 5, 6 and 9 by a person (and their associates) who may participate in the proposed issue and a person (and their associates) who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if Resolutions 4, 5, 6 and 9 are passed.

However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote in accordance with a direction on the Proxy Form to vote as the proxy decides.

(c) Resolutions 7 and 8

The Company will disregard any votes cast on Resolutions 7 and 8 by a person who is to receive securities in relation to the Company and an associate of that person (or those persons).

However, the Company will not disregard any votes cast on this Resolution if:

- it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote in accordance with a direction on the proxy form to vote as the proxy decides.

(d) Resolution 10

(i) For the purposes of the Corporations Act, a person appointed as a proxy must not vote, on the basis of that appointment, on Resolution 10 if:

- the person is either:
  - a member of the Key Management Personnel for the Company or, if the Company is part of a consolidated entity, for the entity; or
  - a Closely Related Party of such a member; and
- the appointment does not specify the way the proxy is to vote on the Resolution.

However, the Company will not disregard a vote if:

- the person is the chair of the meeting at which the Resolution is voted on; and
- the appointment expressly authorises the chair to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company or, if the Company is part of a consolidated entity, for the entity.

(ii) For the purposes of the Listing Rules, the Company will disregard any votes cast on Resolution 10 by any Director of the Company (except one who is ineligible to participate in the Employee Performance Rights Plan) in respect of which the approval is sought and any associates of that Director of the Company.

However, subject always to paragraph (d)(i) above, the Company will not disregard a vote if:

- it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

#### 4. Proxies

A Shareholder entitled to attend this Meeting and vote is entitled to appoint a proxy to attend and vote for the Shareholder at the Meeting. A proxy need not be a Shareholder. If the Shareholder is entitled to cast two or more votes at the Meeting the Shareholder may appoint two proxies and may specify the proportion or number of votes which each proxy is appointed to exercise. A form of proxy accompanies this Notice.

To be valid, the appointment of a proxy (made using a properly completed and executed Proxy Form) must be received by the Company no later than 2.00 pm (Qld time) on 21 August 2016.

Proxy Forms can be submitted by the below methods:

(a) Online by visiting [www.investorvote.com.au](http://www.investorvote.com.au) and entering the 6 digit control number found on the front of

the proxy form. Intermediary Online subscribers (Custodians) may lodge proxy instructions at [www.intermediaryonline.com](http://www.intermediaryonline.com);

- (b) by mail to Computershare Investor Services, GPO Box 242, Melbourne Victoria 3001; and
- (c) by facsimile 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia)

## **5. Undirected proxies**

If you choose to appoint a proxy, you are encouraged to direct your proxy how to vote on each Resolution by marking either **For**, **Against** or **Abstain** on the voting form for that item of business.

Please note that if the chair of the Meeting is your proxy (or becomes your proxy by default), you expressly authorise the chair to exercise your proxy on Resolution 10 even though it is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, which includes the chair. If you appoint the chair as your proxy you can direct the chair to vote for or against or abstain from voting on Resolution 10 by marking the appropriate box on the Proxy Form.

The Chair of the Meeting intends to vote all undirected proxy votes in favour of all Resolutions.

## **6. Corporate Representative**

Any corporate Shareholder who has appointed a person to act as its corporate representative at the Meeting should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that company's representative. The authority may be sent to the Company and/or registry in advance of the Meeting or handed in at the Meeting when registering as a corporate representative.

## **EXPLANATORY MEMORANDUM**

This Explanatory Memorandum contains an explanation of, and information about, the Resolutions to be considered at the General Meeting of Shareholders of Avalon Minerals Limited to be held on Tuesday, 23 August 2016. This Explanatory Memorandum is to assist Shareholders in understanding the background to and the legal and other implications of the Notice and the reasons for the Resolutions proposed. Shareholders should read the Explanatory Memorandum in full. The Explanatory Memorandum forms part of the accompanying Notice of Meeting and should be read with the Notice of Meeting.

The Explanatory Memorandum does not take into account the individual investment objectives, financial situation and needs of individual Shareholders or any other person. If you are in doubt about what to do in relation to the Resolutions, you should consult your financial or other professional adviser.

Capitalised words used in the Notice of Meeting and in the Explanatory Memorandum are defined in the Glossary section at the end of the Explanatory Memorandum.

The information contained in this Explanatory Memorandum has been prepared by the Company and is the responsibility of the Company. Other than the information set out in this Explanatory Memorandum, the Directors believe that there is no other information that could reasonably be required by Shareholders to consider Resolutions 1 to 10 (inclusive).

## RESOLUTION 1 – Ratification of the prior issue of placement Shares under Listing Rule 7.1

### **Background**

This Resolution seeks ratification by Shareholders of the issue of 1,000,000 Shares to the Allottee set out below on 26 May 2016.

The Placement was undertaken under the Company's annual 15% placement capacity under Listing Rule 7.1.

Listing Rule 7.1 provides, in summary, that a listed company may not issue equity securities in any 12 month period which exceeds 15% of the number of issued securities of the company held at the beginning of the 12 month period, except with the prior approval of shareholders of the company in general meeting, unless an exception in Listing Rule 7.2 applies.

However, Listing Rule 7.4 provides that an issue of equity securities made without shareholder approval under Listing Rule 7.1 is treated as having been made with shareholder approval for the purpose of Listing Rule 7.1 if:

- the issue did not breach Listing Rule 7.1; and
- holders of ordinary securities subsequently approve it.

The issue of the Shares did not result in the Company breaching the 15% limit referred to in Listing Rule 7.1. The issue of the Shares does not therefore depend upon shareholders passing Resolution 1. The purpose of Resolution 1 is to obtain shareholder approval for the purpose of Listing Rule 7.4 and for all other purposes. If shareholders approve the issue of the Shares for the purpose of Listing Rule 7.4, the issue of the Shares will not count towards determining the number of equity securities which the Company can issue in any 12 month period. However, if shareholders do not approve the issue of the Shares for the purpose of Listing Rule 7.4, the issue of the Shares will count towards the number of equity securities which the Company can issue in any 12 month period.

Resolution 1 seeks Shareholder approval for and ratification of the issue of:-

(a) 1,000,000 Shares issued under the Company's annual 15% placement capacity under Listing Rule 7.1,

under Listing Rule 7.4 to provide flexibility for the Company to issue equity securities under the 15% placement capacity under Listing Rule 7.1 in the next 12 months without the requirement to obtain Shareholder approval.

### **Listing Rule disclosure**

Pursuant to and in accordance with Listing Rule 7.5, the following information is provided in relation to the issue of Shares the subject of Resolution 1:

<i>Required disclosure</i>	
<i>Number of securities allotted</i>	Total of 1,000,000 Shares were issued under the Company's annual 15 % placement under Listing Rule 7.1
<i>Issue price</i>	NIL. The Shares were issued under the terms of the Heads of Agreement with Nortec Minerals Corp relating to an earn-in joint venture as announced on 19 May 2016.
<i>Terms of the securities</i>	The Shares were issued as fully paid ordinary shares ranking equally with existing Shares, for which the Company sought quotation on the official list of the ASX on 26 May 2016.
<i>Names of Allottee</i>	The Shares were issued to Nortec Minerals Corp
<i>Use of funds</i>	No funds received. The Shares were issued under the terms of the Heads of Agreement with Nortec Minerals Corp relating to an earn-in joint venture as announced on 19 May 2016.

**Recommendation:** The Board unanimously recommends that Shareholders vote in favour of Resolution 1.

## RESOLUTIONS 2 and 3 – Ratification of the prior issue of placement Shares under Listing Rules 7.1 and 7.1A

### **Background**

Resolutions 2 and 3 seek ratification by Shareholders of the issue of 94,525,000 Shares to the Allottees set out below on 12 July 2016.

The Placement was undertaken under Listing Rule 7.1 and Listing Rule 7.1A as follows:-

- (a) 56,315,000 Shares were issued under the Company's annual 15% placement capacity under Listing Rule 7.1; and
- (b) 38,210,000 Shares were issued under the Company's additional 10% placement capacity under Listing Rule 7.1A.

A summary of Listing Rule 7.1 is set out above.

Listing Rule 7.1A enables certain eligible entities to seek shareholder approval to issue equity securities up to 10% of its issued share capital over a 12 month period after the annual general meeting at which a resolution for the purposes of Listing Rule 7.1A is passed by special resolution. This additional 10% placement capacity is in addition to the Company's 15% placement capacity under Listing Rule 7.1. The Company obtained approval from Shareholders to issue equity securities under Listing Rule 7.1A at the Company's last annual general meeting held on 26 November 2015.

A note to Listing Rule 7.4 provides that the issue of securities made under Listing Rule 7.1A can be ratified by shareholders under Listing Rule 7.4. If Shareholders ratify the issue of securities, the issue will not reduce the Company's placement capacity under Listing Rule 7.1A.

Accordingly, Resolutions 2 and 3 seek Shareholder approval for and ratification of the issue of:-

- (a) 56,315,000 Shares issued under the Company's annual 15% placement capacity under Listing Rule 7.1 (Resolution 2); and
- (b) 38,210,000 Shares issued under the Company's additional 10% placement capacity under Listing Rule 7.1A (Resolution 3),

under Listing Rule 7.4 to provide flexibility for the Company to issue equity securities under the 15% placement capacity under Listing Rule 7.1 and additional 10% placement capacity under Listing Rule 7.1A in the next 12 months without the requirement to obtain Shareholder approval.

### **Listing Rule disclosure**

Pursuant to and in accordance with Listing Rule 7.5, the following information is provided in relation to the issue of Shares, the subject of Resolutions 2 and 3:

<b>Required disclosure</b>	
<i>Number of securities allotted</i>	Total of 94,525,000 Shares were issued, where: <ul style="list-style-type: none"><li>(i) 56,315,000 Shares were issued under the Company's annual 15% placement capacity under Listing Rule 7.1 (Resolution 2); and</li><li>(ii) 38,210,000 Shares were issued under the Company's additional 10% placement capacity under Listing Rule 7.1A (Resolution 3).</li></ul>
<i>Issue price</i>	\$0.016 (1.6 cents)
<i>Terms of the securities</i>	The Shares were issued as fully paid ordinary shares ranking equally with existing Shares, for which the Company sought quotation on the official list of the ASX on 12 July 2016.

<i>Names of Allottees</i>	The Shares were issued to the following parties on the following noted allocations: <ul style="list-style-type: none"> <li>• 94,525,000 Shares to professional and sophisticated investor clients of Hartleys Limited</li> </ul>
<i>Use of funds</i>	The funds raised pursuant to the Placement will be applied to: <ul style="list-style-type: none"> <li>• A 3,000m drilling programme at the Kietyönmäki lithium occurrence within the Tammela Lithium Project<sup>1</sup>, Finland, with the objective of defining a maiden JORC Resource;</li> <li>• Other exploration activities on its Swedish and Finnish lithium exploration assets including geophysics, geochemistry and metallurgical test work;</li> <li>• Progressing the Environmental and Social Impact Assessment in relation to its Viscaria Copper Project, Sweden; and</li> <li>• Working capital, including corporate costs to manage the exploration program and costs of the offer.</li> </ul>

**Recommendation:** The Board unanimously recommends that Shareholders vote in favour of Resolutions 2 and 3.

#### **RESOLUTION 4 – Approval to issue up to 36,250,000 new Shares**

Listing Rule 7.1 sets out the basic prohibition on an entity issuing equity securities in any 12 month period which amount to more than 15% of its ordinary securities. An issue in excess of the 15% limit can be made with the approval of holders of ordinary securities.

This Resolution seeks Shareholder approval pursuant to Listing Rule 7.1 for the issue of up to 37,000,000 Shares (**New Shares**) to investors under section 708 of the Corporations Act (**Investors**) by way of placement, for oversubscribed interest in the placement announced 6 July 2016.

The funds will be put towards the Company's general working capital requirements and exploration activities at the relevant time.

The Company is seeking Shareholder approval under Resolution 4, so that the New Shares offered to Investors does not count towards the 15% threshold. If Shareholder approval is not obtained for Resolution 4, the Company may still issue the New Shares up to the maximum allowed under the 15% threshold without Shareholder approval.

However, if Resolution 4 is approved, the effect will be that provided the New Shares are issued as set out in this Explanatory Memorandum no later than 3 months after the date of the Meeting, they will not count towards the Company's 15% threshold.

#### ***Approval to issue the New Shares***

The New Shares may be issued progressively but no later than 23 November 2016 (3 months after the date of the General Meeting).

The New Shares will be available to Investors that are identified by the Company or its brokers to fall within one or more of the classes of exemptions specified in section 708 of the Corporations Act (for which no disclosure is required). The New Shares will be issued in accordance with the Listing Rules at an issue price of \$0.016 (1.6 cents).

#### ***Listing Rule Requirements***

In compliance with the requirements of Listing Rule 7.3, Shareholders are advised of the following information in relation to the proposed New Shares:

<b><i>Required disclosure</i></b>	
<i>Maximum number of securities to be issued</i>	36,250,000 New Shares.

<i>Date by which the New Shares will be issued</i>	<p>The New Shares will be issued as soon as practicable after Shareholder approval is obtained and the issue price for the New Shares (as noted below) is received by the Company, but in any event for the purposes of relying on the Shareholder approval obtained for this Resolution, the New Shares will be issued no later than 3 months after this General Meeting (23 November 2016).</p> <p>The Company is not bound to issue the maximum number of New Shares for which Shareholder approval is sought. The Company may, in its absolute discretion, issue such lesser number of New Shares as it may determine.</p> <p>The issue of New Shares may occur progressively, provided that any New Shares are issued no later than 3 months after the date of the General Meeting.</p>
<i>Issue price</i>	The issue price for the New Shares is \$0.016 (1.6 cents)
<i>Allottees</i>	<p>New Shares will be allotted and issued to Investors that are identified by the Company or its brokers as an investor who qualifies for one or more of the exemptions specified in section 708 of the Corporations Act (for example “sophisticated investors” or “professional investors” within the meaning given by those terms under the Corporations Act).</p> <p>The Company reserves the right to pay any broker a commission on all monies raised from allottees introduced by the broker. As Shareholder approval is only being sought under this Resolution 4 for the purposes of Listing Rule 7.1, in accordance with Listing Rule 10.11 the New Shares cannot be issued to “related parties” of the Company as that term is defined by the Listing Rules. The term “related parties” includes (but is not limited) to the Directors and their spouses and entities controlled by the Directors.</p>
<i>Terms of the securities</i>	The New Shares that are issued will rank equally in all respects with existing Shares from the issue date, in accordance with the terms of the Constitution.
<i>Use of funds</i>	The funds will be put towards the Company’s general working capital requirements and exploration activities at the relevant time.

### ***Effect of the Resolution***

Resolution 4, if passed, will allow the Company to issue up to 36,250,000 Shares.

This issue of up to 36,250,000 Shares may have a dilutive effect on the existing Shareholders. The exact dilutive effect will depend on whether the full 36,250,000 Shares are allotted and issued. If the full 36,250,000 Shares are allotted and issued, and assuming no Shares are issued or Options exercised in the interim, the maximum dilutive effect will equate to 7.6% of the Shares on issue.

Accordingly, each existing Shareholder’s percentage ownership in the Company will be reduced upon the issue of the New Shares, reducing the existing Shareholder’s percentage ownership and their control over the affairs of the Company.

**Recommendation:** The Board unanimously recommends that Shareholders vote in favour of Resolution 4.

## RESOLUTION 5 – Approval to issue 130,775,000 new Options

Listing Rule 7.1 sets out the basic prohibition on an entity issuing equity securities in any 12 month period which amount to more than 15% of its ordinary securities. An issue in excess of the 15% limit can be made with the approval of holders of ordinary securities.

This Resolution seeks Shareholder approval pursuant to Listing Rule 7.1 for the issue of 130,775,000 Options (**New Options**) to investors under section 708 of the Corporations Act (**Investors**) by way of placement, in accordance with the ASX announcement dated 6 July 2016.

The issue of Options will not raise any funds initially. If all the Options are allotted, issued and exercised, additional funds will be raised. The funds will be put towards the Company's general working capital requirements and exploration activities at the relevant time.

The Company is seeking Shareholder approval under Resolution 5, so that the New Options offered to Investors does not count towards the 15% threshold. If Shareholder approval is not obtained for Resolution 5, the Company may still issue the New Options up to the maximum allowed under the 15% threshold without Shareholder approval.

However, if Resolution 5 is approved, the effect will be that provided the New Options are issued as set out in this Explanatory Memorandum no later than 3 months after the date of the Meeting, they will not count towards the Company's 15% threshold.

### ***Approval to issue the New Options***

The New Options may be issued progressively but no later than 23 November 2016 (3 months after the date of the General Meeting).

The New Options will be available to Investors that are identified by the Company or its brokers to fall within one or more of the classes of exemptions specified in section 708 of the Corporations Act (for which no disclosure is required).

### ***Listing Rule Requirements***

In compliance with the requirements of Listing Rule 7.3, Shareholders are advised of the following information in relation to the proposed New Shares:

<b><i>Required disclosure</i></b>	
<b><i>Maximum number of securities to be issued</i></b>	130,775,000 New Options.
<b><i>Date by which the New securities will be issued</i></b>	<p>The New Options will be issued as soon as practicable after Shareholder approval is obtained, but in any event for the purposes of relying on the Shareholder approval obtained for this Resolution, the New Options will be issued no later than 3 months after this General Meeting (23 November 2016).</p> <p>The Company is not bound to issue the maximum number of New Options for which Shareholder approval is sought. The Company may, in its absolute discretion, issue such lesser number of New Options as it may determine.</p> <p>The issue of New Options may occur progressively, provided that any New Options are issued no later than 3 months after the date of the General Meeting.</p>
<b><i>Issue terms</i></b>	<p>The issue price per Option is Nil.</p> <p>The terms of issue are as follows:</p> <ul style="list-style-type: none"><li>• Up to 130,775,000 Options</li><li>• Exercise price of \$0.03 (3 cents) per option</li></ul> <p>Expiry date of 3 years following issue.</p>

<p><i>Allottees</i></p>	<p>New Options will be allotted and issued to Investors that are identified by the Company or its brokers as an investor who qualifies for one or more of the exemptions specified in section 708 of the Corporations Act (for example “sophisticated investors” or “professional investors” within the meaning given by those terms under the Corporations Act).</p> <p>The Company reserves the right to pay any broker a commission on all monies raised from allottees introduced by the broker. As Shareholder approval is only being sought under this Resolution 5 for the purposes of Listing Rule 7.1, in accordance with Listing Rule 10.11 the New Options cannot be issued to “related parties” of the Company as that term is defined by the Listing Rules. The term “related parties” includes (but is not limited) to the Directors and their spouses and entities controlled by the Directors.</p>
<p><i>Terms of the securities</i></p>	<p>The material terms of the Options are:</p> <ul style="list-style-type: none"> <li>(a) The issue price per Option is Nil.</li> <li>(b) The exercise price per Option is \$0.03 (3 cents) per option (<b>Exercise Price</b>).</li> <li>(c) The Options are to be listed on the ASX, the Company will make application to ASX for official quotation of the Options issued in accordance with the ASX Listing Rules.</li> <li>(d) No performance conditions need to be satisfied before the Option holder can exercise the Options, other than payment of the Exercise Price.</li> <li>(e) Options are exercisable at the discretion of the Option holder, at any time on or before the expiry of the exercise period of 3 years following the issue of the Options (<b>Expiry Date</b>).</li> <li>(f) If the Option holder fails to exercise any Options registered in its name before the Expiry Date, those unexercised Options lapse and all rights in respect of those Options cease.</li> <li>(g) For each Option that is exercised, the Option holder will receive one fully paid ordinary share in the Company.</li> <li>(h) The Shares issued on the exercise of the Option will rank equally in all respects as from the date of issue of those Shares with all existing ordinary shares in the capital of the Company.</li> <li>(i) If the Shares are listed on ASX at the time of exercise, the Company will make application to ASX for official quotation of the Shares issued on the exercise of the Options in accordance with the ASX Listing Rules.</li> </ul> <p>Full terms and conditions of the Options are contained in Annexure A to this Explanatory Memorandum.</p>
<p><i>Use of funds</i></p>	<p>The issue of the Options will initially not raise any money.</p> <p>If all the Options are exercised, additional funds will be raised. The funds will be put towards the Company’s general working capital requirements and exploration activities at the relevant time.</p>

***Effect of the Resolution***

Resolution 5, if passed, will allow the Company to issue up to 130,775,000 Options.

This issue of up to 130,775,000 Options may have a dilutive effect on the existing Shareholders. The exact dilutive effect will depend on whether the full 130,775,000 Options are allotted, issued and then subsequently exercised. If the full 130,775,000 Options are allotted, issued and exercised, and assuming no Shares are issued or Options exercised in the interim, the maximum dilutive effect will equate to 27.4% of the Shares on issue.

Accordingly, each existing Shareholder’s percentage ownership in the Company will be reduced upon the issue of the new Shares upon exercise of the New Options, reducing the existing Shareholder’s percentage ownership and their control over the affairs of the Company.

**Recommendation:** The Board unanimously recommends that Shareholders vote in favour of Resolution 5.

## RESOLUTION 6 – Approval to issue 10,000,000 new Options

Listing Rule 7.1 sets out the basic prohibition on an entity issuing equity securities in any 12 month period which amount to more than 15% of its ordinary securities. An issue in excess of the 15% limit can be made with the approval of holders of ordinary securities.

This Resolution seeks Shareholder approval pursuant to Listing Rule 7.1 for the issue of 10,000,000 Options (**New Options**) to Hartleys Limited (or its nominee) in lieu of cash fees for corporate advisory services provided by Hartleys, in accordance with the ASX announcement dated 6 July 2016.

The issue of New Options will not raise any funds initially. If all the New Options are exercised, additional funds will be raised. The funds will be put towards the Company's general working capital requirements and exploration activities at the relevant time.

The Company is seeking Shareholder approval under Resolution 6, so that the New Options offered to Hartleys Limited (or its nominee) does not count towards the 15% threshold. If Shareholder approval is not obtained for Resolution 6, the Company may still issue the New Options up to the maximum allowed under the 15% threshold without Shareholder approval.

However, if Resolution 6 is approved, the effect will be that provided the New Options are issued as set out in this Explanatory Memorandum no later than 3 months after the date of the Meeting, they will not count towards the Company's 15% threshold.

### *Approval to issue the New Options*

The New Options may be issued progressively but no later than 23 November 2016 (3 months after the date of the General Meeting).

The New Options will be available to Hartleys Limited (or its nominee) (for which no disclosure is required).

### *Listing Rule Requirements*

In compliance with the requirements of Listing Rule 7.3, Shareholders are advised of the following information in relation to the proposed New Shares:

<i>Required disclosure</i>	
<i>Maximum number of securities to be issued</i>	10,000,000 New Options.
<i>Date by which the New securities will be issued</i>	The New Options will be issued as soon as practicable after Shareholder approval is obtained, but in any event for the purposes of relying on the Shareholder approval obtained for this Resolution, the New Options will be issued no later than 3 months after this General Meeting (23 November 2016).  The issue of New Options may occur progressively, provided that any New Options are issued no later than 3 months after the date of the General Meeting.
<i>Issue terms</i>	The issue price per Option is Nil.  The terms of issue are as follows: <ul style="list-style-type: none"><li>• 10,000,000 Options</li><li>• Exercise price of \$0.03 (3 cents) per option</li></ul> Expiry date of 3 years following issue.

<i>Allottees</i>	<p>New Options will be allotted and issued to Hartleys Limited (or its nominee) as the broker for the capital raising referred to in Resolutions 2 to 5, and in lieu of cash fees for corporate advisory services provided by Hartleys, and qualifies for one or more of the exemptions specified in section 708 of the Corporations Act (for example “sophisticated investors” or “professional investors” within the meaning given by those terms under the Corporations Act).</p> <p>As Shareholder approval is only being sought under this Resolution 6 for the purposes of Listing Rule 7.1, in accordance with Listing Rule 10.11 the New Options cannot be issued to “related parties” of the Company as that term is defined by the Listing Rules. The term “related parties” includes (but is not limited) to the Directors and their spouses and entities controlled by the Directors.</p>
<i>Terms of the securities</i>	<p>The material terms of the Options are:</p> <ul style="list-style-type: none"> <li>(a) The issue price per Option is Nil.</li> <li>(b) The exercise price per Option is \$0.03 (3 cents) per option (<b>Exercise Price</b>).</li> <li>(c) The Options are to be listed on the ASX, the Company will make application to ASX for official quotation of the Options issued in accordance with the ASX Listing Rules.</li> <li>(d) No performance conditions need to be satisfied before the Option holder can exercise the Options, other than payment of the Exercise Price.</li> <li>(e) Options are exercisable at the discretion of the Option holder, at any time on or before the expiry of the exercise period of 3 years following the issue of the Options (<b>Expiry Date</b>).</li> <li>(f) If the Option holder fails to exercise any Options registered in its name before the Expiry Date, those unexercised Options lapse and all rights in respect of those Options cease.</li> <li>(g) For each Option that is exercised, the Option holder will receive one fully paid ordinary share in the Company.</li> <li>(h) The Shares issued on the exercise of the Option will rank equally in all respects as from the date of issue of those Shares with all existing ordinary shares in the capital of the Company.</li> <li>(i) If the Shares are listed on ASX at the time of exercise, the Company will make application to ASX for official quotation of the Shares issued on the exercise of the Options in accordance with the ASX Listing Rules.</li> </ul> <p>Full terms and conditions of the Options are contained in Annexure A to this Explanatory Memorandum.</p>
<i>Use of funds</i>	<p>The issue of the Options will initially not raise any money.</p> <p>If all the Options are exercised, additional funds will be raised. The funds will be put towards the Company’s general working capital requirements and exploration activities at the relevant time.</p>

### ***Effect of the Resolution***

Resolution 6, if passed, will allow the Company to issue 10,000,000 Options.

This issue of 10,000,000 Options may have a dilutive effect on the existing Shareholders. The exact dilutive effect will depend on whether the full 10,000,000 Options are exercised. If the full 10,000,000 Options are exercised, and assuming no Shares are issued or Options exercised in the interim, the maximum dilutive effect will equate to 2.1% of the Shares on issue.

Accordingly, each existing Shareholder’s percentage ownership in the Company will be reduced upon the issue of the new Shares upon exercise of the New Options, reducing the existing Shareholder’s percentage ownership and their control over the affairs of the Company.

**Recommendation:** The Board unanimously recommends that Shareholders vote in favour of Resolution 6.

## RESOLUTIONS 7 and 8 - Approval for issue of Shares and Options to two Directors

### **Background**

Resolutions 7 and 8 seek to obtain shareholder approval pursuant to Listing Rule 10.11 for the issue of a total of 1,562,500 fully paid ordinary shares and 1,562,500 attaching new options to two (2) directors of the Company as described in the table below:

Director	Shares	Issue Price (per share)	Options	Exercise Price (per option)
Mr Malcolm Norris	625,000	\$0.016 (1.6 cents)	625,000	\$0.03 (3 cents)
Mr Graham Ascough	937,500	\$0.016 (1.6 cents)	937,500	\$0.03 (3 cents)

### **Listing Rules**

Listing Rule 10.11 provides that a company must not, subject to specified exceptions, issue or agree to issue equity securities to a related party, which includes a Director, without shareholder approval. If approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

### **Corporations Act 2001 (Cth)**

Pursuant to Chapter 2E of the Corporations Act, a public company cannot give “a financial benefit” to a “related party”, which includes a director, unless one of the exceptions to the section apply or shareholders, at a general meeting, approve the giving of that financial benefit to the related party.

Section 210 of the Corporations Act provides that one of the exceptions to the requirement to obtain shareholder approval for giving a financial benefit to a related party is where the benefit is given at arm’s length, that is on terms that:

- (a) would be reasonable in the circumstances if the public company and the related party were dealing at arms’ length; or
- (b) are less favourable to the related party than the terms referred to in paragraph (a).

The Directors (other than Messrs Norris and Ascough) consider that the proposed issue of securities the subject of Resolutions 7 and 8 is on arm’s length terms and, as such, fall within the exception set out in section 210 of the Corporations Act. The Directors (other than Messrs Norris and Ascough) have reached this view as the terms upon which Messrs Norris and Ascough will acquire the securities are the same as those terms upon which allottees acquired securities in the Company at a share issue price of \$0.016 (1.6 cents) each and attaching new options pursuant to the placement described in full detail in Resolutions 2, 3, 4 and 5 above.

## **RESOLUTION 7 – Approval for issue of Shares and Options to Director - Mr Malcolm Norris**

The following information is provided in accordance with the requirements of Listing Rule 10.13:

- (a) The securities the subject of Resolution 7 are to be issued to Mr Norris (or his nominee/s), a director of the Company;
- (b) The maximum number of shares to be issued is 625,000 fully paid ordinary shares;
- (c) The maximum number of options to be issued is 625,000 options at an exercise price of \$0.03 (3 cents) with the same terms as those options detailed in Resolution 5;
- (d) The securities will be issued no later than one (1) month after the date of the Meeting (or such later date as may be permitted by an ASX waiver of the Listing Rules);
- (e) The issue price of the shares will be \$0.016 (1.6 cents) per share. The issue price per option is Nil;
- (f) The shares will rank equally with the Company's existing listed fully paid ordinary shares. The Company will apply to ASX for admission of the shares issued for quotation on ASX;
- (g) The issue of securities to Mr Norris will raise \$10,000. Funds raised by the issue of securities to Mr Norris will be used to fund the Company's lithium assets and Viscaria Copper Project as described above and provide working capital for the Company.

Mr Norris declines to make a recommendation to Shareholders in relation to Resolution 7 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a material interest in the outcome of Resolution 7, recommend that Shareholders vote in favour of Resolution 7. The Board, other than Mr Norris, are not aware of any other information which would reasonably be required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 7.

**Recommendation: The Board, with Mr Norris abstaining, unanimously recommends that Shareholders vote in favour of Resolution 7.**

## **RESOLUTION 8 – Approval for issue of Shares and Options to Director - Mr Graham Ascough**

The following information is provided in accordance with the requirements of Listing Rule 10.13:

- (a) The securities the subject of Resolution 8 are to be issued to Mr Ascough (or his nominee/s), a director of the Company;
- (b) The maximum number of shares to be issued is 937,500 fully paid ordinary shares;
- (c) The maximum number of options to be issued is 937,500 options at an exercise price of \$0.03 (3 cents) with the same terms as those options detailed in Resolution 5;
- (d) The securities will be issued no later than one (1) month after the date of the Meeting (or such later date as may be permitted by an ASX waiver of the Listing Rules);
- (e) The issue price of the shares will be \$0.016 (1.6 cents) per share. The issue price per option is Nil;
- (f) The shares will rank equally with the Company's existing listed fully paid ordinary shares. The Company will apply to ASX for admission of the shares issued for quotation on ASX;
- (g) The issue of securities to Mr Ascough will raise \$15,000. Funds raised by the issue of securities to Mr Ascough will be used to fund the Company's lithium assets and Viscaria Copper Project as described above and provide working capital for the Company.

Mr Ascough declines to make a recommendation to Shareholders in relation to Resolution 8 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a material interest in the outcome of Resolution 8, recommend that Shareholders vote in favour of Resolution 8. The Board, other than Mr Ascough, are not aware of any other information which would reasonably be required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 8.

**Recommendation: The Board, with Mr Ascough abstaining, unanimously recommends that Shareholders vote in favour of Resolution 8.**

## RESOLUTION 9 – Approval to issue 5,000,000 new Shares

### **Background**

This Resolution seeks Shareholder approval pursuant to Listing Rule 7.1 for the issue of 5,000,000 Shares (**New Shares**) the Allottees set out below under section 708 of the Corporations Act by way of placement.

The Shares are to be issued under the terms of the Heads of Agreement with the Allottees relating to an earn-in joint venture as announced on 14 June 2016. The shares are to be granted for no cash consideration.

The Company is seeking Shareholder approval under Resolution 9, so that the New Shares does not count towards the 15% threshold. If Shareholder approval is not obtained for Resolution 9, the Company may still issue the New Shares up to the maximum allowed under the 15% threshold without Shareholder approval.

However, if Resolution 9 is approved, the effect will be that provided the New Shares are issued as set out in this Explanatory Memorandum no later than 3 months after the date of the Meeting, they will not count towards the Company's 15% threshold.

### **Approval to issue the New Shares**

The New Shares may be issued progressively but no later than 23 November 2016 (3 months after the date of the General Meeting).

### **Listing Rule Requirements**

In compliance with the requirements of Listing Rule 7.3, Shareholders are advised of the following information in relation to the proposed New Shares:

<i>Required disclosure</i>	
<i>Maximum number of securities to be issued</i>	5,000,000 New Shares.
<i>Date by which the New Shares will be issued</i>	The New Shares will be issued as soon as practicable after Shareholder approval is obtained, but in any event for the purposes of relying on the Shareholder approval obtained for this Resolution, the New Shares will be issued no later than 3 months after this General Meeting (23 November 2016).  The issue of New Shares may occur progressively, provided that any New Shares are issued no later than 3 months after the date of the General Meeting.
<i>Issue price</i>	NIL. The Shares were issued under the terms of the Heads of Agreement with the allottees relating to an earn-in joint venture as announced on 14 June 2016
<i>Allottees</i>	The Shares were issued to the following parties on the following noted allocations: <ul style="list-style-type: none"><li>• Haustella Pty Ltd – 2,500,000 Shares</li><li>• Wilron Marine Pty Ltd – 2,500,000 Shares</li></ul>
<i>Terms of the securities</i>	The New Shares that are issued will rank equally in all respects with existing Shares from the issue date, in accordance with the terms of the Constitution.
<i>Use of funds</i>	No cash funds received.

### **Effect of the Resolution**

Resolution 9, if passed, will allow the Company to issue 5,000,000 Shares.

This issue of 5,000,000 Shares will have a dilutive effect on the existing Shareholders. Assuming no Shares are issued or Options exercised in the interim, the maximum dilutive effect will equate to 1% of the Shares on issue.

Accordingly, each existing Shareholder's percentage ownership in the Company will be reduced upon the issue of the New Shares, reducing the existing Shareholder's percentage ownership and their control over the affairs of the Company.

**Recommendation:** The Board unanimously recommends that Shareholders vote in favour of Resolution 9.

**RESOLUTION 10 – Approval to issue up to 2,089,000 Performance Rights to CEO/Managing Director, Malcolm Norris or his nominee.**

***Background***

The Board is seeking Shareholder approval for Resolution 10 referred to in the accompanying Notice of Meeting for the purposes of Chapter 2E of the Corporations Act and Listing Rule 10.14.

***Corporations Act***

Chapter 2E of the Corporations Act regulates related party transactions. Pursuant to section 228, Mr Norris is a related party of the Company given he is a director of the Company.

Section 208 of the Corporations Act provides that, unless an exception applies, a public company must obtain the approval of its members in accordance with sections 217 to 227 of the Corporations Act before it gives a financial benefit to a related party. The benefit for which Shareholder approval is obtained must be given within 15 months of that approval.

The issue of the Performance Rights proposed under Resolution 10 is an example of giving a financial benefit to a related party under the Corporations Act. It is on this basis that approval to Resolution 10 is being sought.

***Listing Rules***

Listing Rule 10.14 requires a listed company to obtain Shareholder approval by ordinary resolution prior to the issue of equity securities under an employee incentive scheme to a director of the entity. The definition of ‘equity securities’ under the Listing Rules includes a ‘right to a share or unit or option’. Further, as noted above, Mr Norris is a director of the Company, hence Shareholder approval under Listing Rule 10.14 is being sought.

In accordance with Listing Rule 7.2, Exception 14, the general prohibition under Listing Rule 7.1 in relation to the 15% threshold will not apply to the Performance Rights issued under Resolution 10 provided Shareholder approval is obtained under Listing Rule 10.14. If Shareholder approval is given under Listing Rule 10.14, approval is not required under Listing Rule 7.1.

***Corporations Act and Listing Rule disclosure***

Details of the proposed issues under Resolution 10 as required by the Corporations Act and further expanded upon in ASIC Regulatory Guide 76 (Related Party Transactions) and Listing Rule 10.15 are as follows:

<b>Required disclosure</b>	
Proposed allottees	Mr Malcolm Norris, or his nominee
Nature of relationship with Avalon	Mr Malcolm Norris is a related party of the Company because of his role as CEO/Managing Director.
Maximum number of securities to be issued	Subject to Shareholder approval, it is proposed that Mr Norris will be issued up to 2,089,000 Performance Rights to subscribe for new ordinary shares in the Company. For the purposes of relying on the Shareholder approval obtained for this Resolution, all Performance Rights will be issued no later than 1 month after this General Meeting.
Issue Price	Nil
Eligibility	Non-Executive Directors are not eligible to participate in the Employee Performance Rights Plan (“EPRP”). Mr Malcolm Norris, or his nominee, is the only person referred to in Listing Rule 10.14 entitled to participate in the EPRP, and has received 1,994,000 prior Performance Rights under the plan, which have not yet vested as at the date of this Notice.

Terms of issue	<p>The terms and conditions of the Performance Rights to be issued to Mr Norris under Resolution 10 are set out in Annexure B to this Explanatory Memorandum.</p> <p>Each Performance Right proposed to be granted entitles the holder to subscribe for one new ordinary share in the Company, upon satisfying the performance conditions. Shares issued on vesting of the Performance Rights will rank equally in all respects with the existing fully paid ordinary shares in the Company.</p> <p>There are no Loans associated with the Issue.</p>
Use of funds	<p>No funds will be raised on the initial issue of the Performance Rights to Mr Norris as they are being granted for no consideration.</p>
Performance Conditions, and expiry date	<p>In relation to Mr Norris, the Performance Rights to be issued and the performance conditions required for vesting are as follows:</p> <p>(i) 2,089,000 Performance Rights, with an exercise period of 3 years commencing on the date Shareholder approval is granted and expiring on the third anniversary of that date; and</p> <p>(ii) Performance Conditions for Vesting of:</p> <p>a) Tranche 1 – 33.33% or 696,265 performance rights to vest upon the Closing Price of Avalon Shares being \$0.045 or more for 10 consecutive trading days;</p> <p>b) Tranche 2 – 33.33% or 696,265 performance rights to vest upon Total Shareholder Return (<b>TSR</b>) performance as measured against the ASX Small Resources Index, as follows:</p> <ul style="list-style-type: none"> <li>• Performance below the index no shares will vest.</li> <li>• Performance equal to the index will see 50% vest, increasing linearly with outperformance of the index by up to 25%, such that 100% of shares will vest should Avalon's performance be greater than 25% above the index performance.</li> <li>• Testing will be annually on the anniversary of grant date; and</li> </ul> <p>c) Tranche 3 – 33.34% or 696,470 performance rights to vest upon the Closing Price of Avalon Shares being \$0.07 or more for 10 consecutive trading days.</p>
Why the Performance Rights are being issued to the allottees	<p>The primary purpose of the issue of the Performance Rights is to provide cost effective remuneration and incentives for Mr Norris in his role as Managing Director and reflects what the Board considers to be appropriate in the circumstances.</p> <p>It is considered appropriate to grant the Performance Rights to Mr Norris as a means of:</p> <ul style="list-style-type: none"> <li>• retaining his services by providing a competitive remuneration package;</li> <li>• providing incentives linked to the performance of the Company, thereby aligning his interests more closely with that of the Company; and</li> <li>• providing him with an opportunity to acquire equity in the Company.</li> </ul> <p>It is further considered that the performance of Mr Norris and the performance and value of the Company will be closely related.</p> <p>Mr Norris brings a wealth of experience to the Company and valuable fundraising experience, mine development and mining exploration contacts.</p> <p>The Directors (other than Mr Norris) believe that the proposed issue of Performance Rights are in the best interests of the Company and promote the interests of the Company on the basis that the Managing Director will be increasingly committed to improving the performance of the Company for the benefit of Shareholders.</p>

<p>Why the number of Performance Rights and value of the Performance Rights was chosen</p>	<p><i>Why the number of Performance Rights?</i></p> <p>The number of Performance Rights was chosen following a review of similar organisations to be market competitive. The Performance Rights will be granted as a key component of the Managing Director’s remuneration in order to retain services and provide incentives linked to the performance of the Company. It is further considered that the performance of the Managing Director and the performance and value of the Company will be closely related.</p> <p><i>What is the value of the Performance Rights?</i></p> <p>Pitcher Partners, as independent valuers, has determined that the total value of the Performance Rights to be issued to Mr Norris is (as at the date of the Valuation) \$29,106.</p> <p>Attaining all the exercising conditions will also mean a significant increase in the share price. If such a share price increase is attained the Board (excluding Mr Norris) determined that the financial reward to Mr Norris was appropriate and aligned his interests with that of all Shareholders.</p>
<p>Why the three performance related vesting conditions were chosen</p>	<p>The three performance related vesting conditions were chosen in order to closely align rewards for performance of key employees with the achievement of the Company's growth and strategic objectives for the 2017 financial year and beyond, to deliver superior performance that creates shareholder value.</p> <p><i>Closing share price \$0.045 or more for 10 consecutive days?</i></p> <p>This vesting condition was chosen as it represents a share price more than double the Volume Weighted Average Price (“VWAP”) for the 52 weeks prior to the end of the 2016 financial year, being \$0.020 and a premium of 181% on the closing price at 30 June 2016 of \$0.016.</p> <p>This price target also reflects almost double the weighted average price paid by shareholders for any Equity issues during the 2016 financial year.</p> <p><i>TSR Performance against the ASX Small Resources Index?</i></p> <p>This vesting condition was chosen as it represents the performance of the Company against a relevant index of resource companies, comparing the growth of the Company with the growth of the index. No shares will vest under this condition unless the Company’s performance is equal to or above that of the index.</p> <p><i>Closing share price \$0.07 or more for 10 consecutive days?</i></p> <p>This vesting condition was chosen as it represents a share price equal to more than 4 times the closing price at 30 June 2016 of \$0.016, and also reflects more than double the highest point the Company’s share price has reached in the 12 months to the end of the 2016 financial year, being \$0.034 in July 2015.</p>
<p>Valuation of the financial benefit</p>	<p>The Company engaged Pitcher Partners to undertake valuations of the Performance Rights proposed to be issued to Mr Norris. Pitcher Partners valued the Performance Rights using the Monte Carlo simulation for the valuation of the tranches with share price hurdles (Tranches 1 and 3) and for Tranche 2, a correlated Monte Carlo Simulation to simultaneously simulate the performance of the Company’s share price and the ASX Small Resources Index taking into account the correlation between the two.</p> <p>The valuation models use the following variables to determine the value of the Performance Rights:</p> <ol style="list-style-type: none"> <li>a) value of the underlying asset – share price of \$0.018 being the closing share price on ASX as at the date of the Valuation, 24 June 2016;</li> <li>b) vesting conditions – as referred to above;</li> <li>c) expected volatility of the share price – 146% as calculated by Hoadley’s volatility calculator for a 3 year period;</li> <li>d) expected volatility of the ASX Small Resources Index – 14%;</li> </ol>

	<p>e) risk free rate – the Australian Government 3 year bond rate as at 24 June 2016 of 1.5%;</p> <p>f) time to maturity – the Performance Rights expire 3 years from the date of issue; and</p> <p>g) expected dividend yield – Nil, given the Company is a mineral exploration company with no history of paying dividends.</p> <p>Based on the assumptions outlined above, Pitcher Partners calculated the value of the Performance Rights to be \$29,106, with a total value for each Tranche as follows:</p> <ul style="list-style-type: none"> <li>• Tranche 1 – \$0.0154 per Share Right = \$10,722</li> <li>• Tranche 2 – \$0.0135 per Share Right = \$9,400</li> <li>• Tranche 3 – \$0.0129 per Share Right = \$8,984</li> </ul> <p>However it is important for Shareholders to note that this stated value of the Performance Rights may go up or down at any time despite the Valuation. This is because the value of the Performance Rights will depend on the valuation methodology used in any future valuation, together with the relevant assumptions made under this Valuation compared to any future valuations.</p> <p>The Board (other than Mr Norris) believes, having taken appropriate expert advice on the matter, that the valuation and use of the Monte Carlo simulation was appropriate in the circumstances. The Board has not used any other valuation model in proposing the terms or number of Performance Rights.</p>								
Directors' interest in the outcome	Other than the interests that Mr Norris has in the resolution, none of the other Directors have an interest in the outcome of Resolution 10.								
Date of issue of the Performance Rights	If Resolution 10 is passed, the Performance Rights to be issued to Mr Norris (or his nominee) will be issued no later than one month after the date of the Meeting.								
Disclosure of total remuneration package	<p>As noted above, the Performance Rights are proposed to be issued to Mr Norris as a means of providing cost effective remuneration and incentives for him in his role as Managing Director. These Performance Rights are proposed to be part of the annual remuneration of Mr Norris, under the approved Employee Performance Rights Plan, with the annual value being subject to the discretion of the Board and also subject to shareholder approval.</p> <p>The remuneration and emoluments from the Company for Mr Norris for current financial year are:</p> <table border="1" data-bbox="395 1473 1366 1688"> <thead> <tr> <th data-bbox="395 1473 716 1541">Related party</th> <th data-bbox="719 1473 1366 1541">Current financial year remuneration*</th> </tr> </thead> <tbody> <tr> <td data-bbox="395 1541 716 1688">Mr Malcolm Norris</td> <td data-bbox="719 1541 1366 1688">\$294,300 per annum comprised of a salary of \$270,000 per annum and superannuation of 9.5% 2,089,000 Performance Rights per Resolution 10</td> </tr> </tbody> </table> <p><i>*Paid pursuant to service contracts with the Company.</i></p>	Related party	Current financial year remuneration*	Mr Malcolm Norris	\$294,300 per annum comprised of a salary of \$270,000 per annum and superannuation of 9.5% 2,089,000 Performance Rights per Resolution 10				
Related party	Current financial year remuneration*								
Mr Malcolm Norris	\$294,300 per annum comprised of a salary of \$270,000 per annum and superannuation of 9.5% 2,089,000 Performance Rights per Resolution 10								
Securities held in the Company	<p>The relevant current interests (i.e. before Resolutions 7 and 10 are approved) of Mr Norris in the securities of the Company are set out below*:</p> <table border="1" data-bbox="395 1850 1356 1980"> <thead> <tr> <th data-bbox="395 1850 683 1917">Related party</th> <th data-bbox="686 1850 900 1917">Shares</th> <th data-bbox="903 1850 1066 1917">Options</th> <th data-bbox="1069 1850 1356 1917">Performance Rights</th> </tr> </thead> <tbody> <tr> <td data-bbox="395 1917 683 1980">Mr Malcolm Norris</td> <td data-bbox="686 1917 900 1980">6,875,872</td> <td data-bbox="903 1917 1066 1980">4,000,000</td> <td data-bbox="1069 1917 1356 1980">1,994,000</td> </tr> </tbody> </table> <p>If Resolution 10 is approved by shareholders, the relevant interests (i.e. after the Resolution is approved) of Mr Norris in the securities of the Company will be as set out</p>	Related party	Shares	Options	Performance Rights	Mr Malcolm Norris	6,875,872	4,000,000	1,994,000
Related party	Shares	Options	Performance Rights						
Mr Malcolm Norris	6,875,872	4,000,000	1,994,000						

	below:								
	<table border="1"> <thead> <tr> <th>Related party</th> <th>Shares</th> <th>Options</th> <th>Performance Rights</th> </tr> </thead> <tbody> <tr> <td>Mr Malcolm Norris</td> <td>6,875,872</td> <td>4,000,000</td> <td>4,083,000</td> </tr> </tbody> </table>	Related party	Shares	Options	Performance Rights	Mr Malcolm Norris	6,875,872	4,000,000	4,083,000
	Related party	Shares	Options	Performance Rights					
	Mr Malcolm Norris	6,875,872	4,000,000	4,083,000					
If Resolutions 7 and 10 are approved by shareholders, the relevant interests (i.e. after the Resolutions are approved) of Mr Norris in the securities of the Company will be as set out below:									
<table border="1"> <thead> <tr> <th>Related party</th> <th>Shares</th> <th>Options</th> <th>Performance Rights</th> </tr> </thead> <tbody> <tr> <td>Mr Malcolm Norris</td> <td>7,500,872</td> <td>4,625,000</td> <td>4,083,000</td> </tr> </tbody> </table>	Related party	Shares	Options	Performance Rights	Mr Malcolm Norris	7,500,872	4,625,000	4,083,000	
Related party	Shares	Options	Performance Rights						
Mr Malcolm Norris	7,500,872	4,625,000	4,083,000						
Dilution effect the issue of the Performance Rights will have on existing Shareholders	If all the Performance Rights currently held by Mr Norris and to be granted to Mr Norris pursuant to Resolution 10 vest, a total of 4,083,000 Shares would be allotted and issued. This would increase the total number of Shares on issue from 477,626,936 to 481,709,936 (assuming no other Performance Rights or Shares are issued or Options exercised), with the effect that the shareholding of existing Shareholders would be diluted by 0.9%.								

The following table demonstrates the dilution of all other shareholdings in the Company upon exercise of the Performance Rights and Share Options issued to Mr Norris, assuming that Shareholders pass Resolutions 7 and 10:

Current shares issued	477,626,936
Shares issued assuming Resolution 7 is approved by Shareholders	625,000
Shares issued assuming all existing Options and those Options to be granted under Resolution 7 are exercised	4,625,000
Shares issued assuming exercise of all the Performance Rights currently held by Mr Norris and to be granted to Mr Norris pursuant to Resolution 10	4,083,000
<b>Total shares</b>	<b>486,959,936</b>
Dilution effect	1.9%

#### **Additional information and Directors' recommendation**

Mr Norris declines to make a recommendation to Shareholders in relation to Resolution 10 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a material interest in the outcome of Resolution 10, recommend that Shareholders vote in favour of Resolution 10. The Board, other than Mr Norris, are not aware of any other information which would reasonably be required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 10.

**Recommendation:** The Board, with Mr Norris abstaining, unanimously recommend that Shareholders vote in favour of Resolution 10.

## GLOSSARY

In this Explanatory Memorandum and Notice of General Meeting the following expressions have the following meanings unless stated otherwise or unless the context otherwise requires:

**\$** means Australian dollars.

**ASX** means ASX Limited ACN 008 624 691 or the Australian Securities Exchange, as the context requires.

**Board** means the current board of directors of the Company.

**Closely Related Party** of a member of Key Management Personnel means:

- (a) a spouse or child of the member;
- (b) a child of the member's spouse;
- (c) a dependant of the member or of the member's spouse;
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealings with the entity;
- (e) a company the member controls; or
- (f) a person prescribed as such by the *Corporations Regulations 2001* (Cth).

**Company** or **Avalon** means Avalon Minerals Limited ACN 123 184 412.

**Constitution** means the constitution of the Company currently in force.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Director** means a director of the Company as at the date of the Explanatory Memorandum.

**Explanatory Memorandum** means the explanatory memorandum that accompanies and forms part of the Notice of Meeting.

**General Meeting** or **Meeting** means the meeting convened by the Notice.

**Key Management Personnel** has the same meaning as in the accounting standards as defined in section 9 of the Corporations Act (so the term broadly includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director, whether executive or otherwise, of the Company).

**Listing Rules** means the official listing rules of the ASX.

**Notice** or **Notice of Meeting** means the notice of general meeting including the Explanatory Memorandum and the Proxy Form.

**Option** means an option to acquire a fully paid ordinary share in the Company.

**Proxy Form** means the proxy form accompanying the Notice.

**Resolution** means a resolution as set out in the Notice.

**Share** or **Shares** means a fully paid ordinary share in the Company.

**Shareholder** means a holder of a Share in the Company.

## ANNEXURE A

### TERMS AND CONDITIONS OF OPTIONS

---

1. Each Option entitles the holder to one ordinary share in the Company.
2. Each Option exercisable at \$0.03 (3 cents) per option, expiry 3 years after issue.
3. Options are exercisable by notice in writing to the Board delivered to the registered office of the Company and payment of the exercise price per Option in cleared funds.
4. The Company will apply to ASX for official quotation of the Options.
5. The Company will make application for official quotation on ASX of new shares allotted on exercise of the Options. Those shares will participate equally in all respects with existing issued ordinary shares, and in particular new shares allotted on exercise of the Options will qualify for dividends declared after the date of their allotment.
6. An optionholder may only participate in new issues of securities to holders of ordinary shares in the Company if the Option has been exercised and shares allotted in respect of the Option before the record date for determining entitlements to the issue. The Company must give prior notice to the optionholder of any new issue before the record date for determining entitlements to the issue in accordance with the ASX Listing Rules.
7. If there is a bonus issue to the holders of ordinary shares in the capital of the Company, the number of ordinary shares over which the Option is exercisable will be increased by the number of ordinary shares which the holder of the Option would have received if the Option had been exercised before the record date for the bonus issue.
8. If the Company makes a rights issue (other than a bonus issue), the exercise price of Options on issue will be reduced according to the following formula:

$$A = O - \frac{E [P - (S + D)]}{(N + 1)}$$

A = the new exercise price of the Option;

O = the old exercise price of the Option;

E = the number of underlying ordinary shares into which one Option is exercisable;

P = the average closing sale price per ordinary share (weighted by reference to volume) recorded on the stock market of ASX during the five trading days immediately preceding the ex-rights date or ex entitlements date (excluding special crossings and overnight sales and exchange traded Option exercises);

S = the subscription price for a security under the pro rata issue;

D = the dividend due but not yet paid on existing underlying securities (except those to be issued under the pro rata issue); and

N = the number of securities with rights or entitlements that must be held to receive a right to one new security.

9. If, during the currency of the Options the issued capital of the Company is reorganised, those Options will be reorganised to the extent necessary to comply with ASX Listing Rules.

**ANNEXURE B – TERMS AND CONDITIONS OF  
CEO/MANAGING DIRECTOR PERFORMANCE RIGHTS**

---

1. Each Performance Right entitles the holder to one ordinary share in the Company on the vesting of the Performance Right.
2. A Performance Right will only vest if:
  - a) the Vesting Conditions applicable to that Performance Right are satisfied;
  - b) the Vesting Conditions applicable to that Performance Right are waived by the Board; or
  - c) a Change of Control event occurs.
3. 2,089,000 Performance Rights issued to the CEO/Managing Director are subject to the following performance related vesting conditions:
  - a) 33.33% or 696,265 performance rights to vest upon the Closing Price of Avalon Shares being \$0.045 or more for 10 consecutive trading days;
  - b) 33.33% or 696,265 performance rights to vest upon Total Shareholder Return ("TSR") performance as measured against the ASX Small Resources Index, as follows:
    - Performance below the index no shares will vest.
    - Performance equal to the index will see 50% vest, increasing linearly with outperformance of the index by up to 25%, such that 100% of shares will vest should Avalon's performance be greater than 25% above the index performance.
    - Testing will be annually on the anniversary of grant date; and
  - c) 33.34% or 696,470 performance rights to vest upon the Closing Price of Avalon Shares being \$0.07 or more for 10 consecutive trading days.
4. Unless the Board determines otherwise in its absolute discretion, a Performance Right will lapse upon the earliest to occur of:
  - a) if a Performance Rights Holder purports to transfer or grant a security interest over a Performance Right that Performance Right will immediately lapse;
  - b) cessation of employment;
  - c) fraudulent or dishonest actions;
  - d) winding up of the Company;
  - e) the Vesting Conditions in respect of a Performance Right not being met within any applicable period;
  - f) any date specified in the relevant Invitation by which the Performance Rights will automatically lapse; or
  - g) the 3 year anniversary of the Grant Date (subject to testing of vesting conditions).
5. Unless otherwise determined by the Board, if a Performance Rights Holder ceases to be an Eligible Employee, any Performance Rights of that Performance Rights Holder that have not as at that time already vested to Shares automatically lapse. In the case of cessation of employment due to death

or ill health, the Board may determine that any of that Performance Rights Holder's Performance Rights vest, and the terms on which those Performance Rights vest. If the Board does not make such a determination within 3 months of the Performance Rights Holder ceasing to be an Eligible Employee, the Performance Rights of that Performance Rights Holder will be deemed to have lapsed on the date the Performance Rights Holder ceased to be an Eligible Employee.

6. Any shares that vest will be subject to Avalon's Security Trading Policy which states certain closed periods where trading in shares is prohibited. The Policy also requires all employees to seek approval from the Company Secretary and/or Chairman to trade in the Company's shares.
7. The Company will not apply to ASX for official quotation of the Performance Rights.
8. The Company will make application for official quotation on ASX of new shares allotted on vesting of the Performance Rights. Those shares will participate equally in all respects with existing issued ordinary shares, and in particular new shares allotted pursuant to Performance Rights will qualify for dividends declared after the date of their allotment.
9. Performance Rights can only be transferred with Board approval, except that if at any time before expiry of the Exercise Period the Performance Rights Holder dies, the legal personal representative of the deceased Performance Rights Holder may:
  - a) elect to be registered as the new holder of the Performance Rights;
  - b) whether or not he becomes so registered, exercise those Performance Rights Holder in accordance with the terms and conditions on which they were granted; and
  - c) if the deceased has already exercised Options, pay the exercise price in respect of those Options.
10. If there is a bonus issue to the holders of ordinary shares in the capital of the Company, the number of ordinary shares over which the Performance Rights are exercisable will be increased by the number of ordinary shares which the holder of the Performance Rights would have received if the Performance Rights had vested before the record date for the bonus issue.
11. If, during the currency of the Performance Rights the issued capital of the Company is reorganised, those Performance Rights will be reorganised to the extent necessary to comply with ASX Listing Rules.
12. Subject to the terms and conditions of a grant of a Performance Right and the applicable laws, if a Change of Control occurs, all Performance Rights will immediately vest.

