

Notice of General Meeting

Explanatory Statement

and

Proxy Form

Date of Meeting

Monday, 12 June 2017

Time of Meeting

10.00am (WST)

Place of Meeting

Level 1, 85 Havelock Street
West Perth WA 6005

For personal use only

NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of members of Australian Vanadium Limited (**Australian Vanadium** or the **Company**) will be held on Monday, 12 June 2017, commencing at 10.00am (WST) at Level 1, 85 Havelock Street, West Perth, Western Australia.

The enclosed Explanatory Statement accompanies and forms part of this Notice of general meeting.

AGENDA

ORDINARY BUSINESS

1. RATIFICATION OF PRIOR ISSUE - SHARES AND VENDOR PERFORMANCE RIGHTS

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

That, for the purposes of Listing Rule 7.4 and for all other purposes, Shareholders approve and ratify the previous issue by the Company of:

- (a) 77,000,000 Shares;
- (b) 40,000,000 Class A Performance Rights; and
- (c) 40,000,000 Class B Performance Rights,

to the shareholders of South African Lithium (Pty) Limited, on the terms and conditions set out in the Explanatory Statement.

Voting Exclusion: The Company will disregard any votes cast on this Resolution by the shareholders of South African Lithium (Pty) Limited and any of their associates. However, the Company will not disregard a vote 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 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

2. RATIFICATION OF PRIOR ISSUE - SHARES

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

That, for the purposes of Listing Rule 7.4 and for all other purposes, Shareholders approve and ratify the previous issue by the Company of 6,250,000 Shares at a deemed issue price of \$0.016 per Share to Rilukin Holdings Pty Ltd on the terms and conditions set out in the Explanatory Statement.

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Rilukin Holdings Pty Ltd and any of its associates. However, the Company will not disregard a vote 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 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

3. PERFORMANCE RIGHTS AND OPTION PLAN (PROP)

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

That approval be given for the establishment of the PROP, as described in the Explanatory Statement, and for the issue of securities under the PROP for all purposes, including ASX Listing Rule 7.2 exception 9.

ASX Voting Exclusion: The Company will disregard any votes cast on this Resolution by a Director of the Company (except one who ineligible to participate in any employee incentive scheme in relation to the Company) and any person associated with that Director. 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.

Voting Prohibition Statement:

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (a) the proxy is the Chair; and
- (b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

4. ISSUE OF EQUITY AWARDS TO DIRECTORS

To consider and, if thought fit, to pass each of the following resolutions as a separate **ordinary resolution**:

4.1 Managing Director – Vincent Algar

That for the purposes of ASX listing rule 10.14, approval be given to the grant of 21,000,000 Performance Rights to the Managing Director, Mr Vincent Algar or his nominee, under the PROP, in accordance with the terms of the PROP as described in the Explanatory Statement.

4.2 Executive Director – Leslie Ingraham

That for the purposes of ASX listing rule 10.14, approval be given to the grant of 21,000,000 Performance Rights to the Executive Director, Mr Leslie Ingraham or his nominee, under the PROP, in accordance with the terms of the PROP as described in the Explanatory Statement.

4.3 Non-Executive Chairman – Brenton Lewis

That for the purposes of ASX listing rule 10.14, approval be given to the grant of 12,000,000 Performance Rights to the Non-Executive Chairman, Mr Brenton Lewis or his nominee, under the PROP, in accordance with the terms of the PROP as described in the Explanatory Statement.

4.4 Non-Executive Director – Daniel Harris

That for the purposes of ASX listing rule 10.14, approval be given to the grant of 6,000,000 Performance Rights to the Non-Executive Director, Mr Daniel Harris or his nominee, under the PROP, in accordance with the terms of the PROP as described in the Explanatory Statement.

ASX Voting Exclusion: The Company will disregard any votes cast on Resolution 4 by:

- (i) Mr Algar, Mr Ingraham, Mr Lewis and Mr Harris being the current directors of the Company, and eligible to participate in the PROP; and
- (ii) an associate of those persons.

However, the Company need not disregard a vote if:

- (i) 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
- (ii) 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.

BY ORDER OF THE BOARD

Neville Bassett
Company Secretary
31 March 2017

IMPORTANT INFORMATION

TIME AND PLACE OF MEETING

Notice is given that the general meeting of the Shareholders to which this Notice of Meeting relates will be held at 10.00am (WST) on 12 June 2017 at:

**Level 1, 85 Havelock Street
West Perth WA 6005**

YOUR VOTE IS IMPORTANT

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

VOTING ELIGIBILITY

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the General Meeting are those who are registered Shareholders at 5.00pm (WST) time on 10 June 2017.

VOTING IN PERSON

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

VOTING BY PROXY

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

Sections 250BB and 250BC of the Corporations Act provide that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Proxy vote if appointment specifies way to vote

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does**:

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands; and
- if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and
- if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

For personal use only

Transfer of non-chair proxy to chair in certain circumstances

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
 - the proxy is not recorded as attending the meeting;
 - the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

For personal use only

EXPLANATORY STATEMENT

1. INTRODUCTION

This Explanatory Statement has been prepared for the information of members of Australian Vanadium Limited ("the Company") in connection with the business to be conducted at the general meeting of members to be held at Level 1, 85 Havelock Street, West Perth, Western Australia on Monday, 12 June 2017 at 10.00am (WST).

This Explanatory Statement forms part of and should be read in conjunction with the accompanying Notice of general meeting.

2. RATIFICATION OF PRIOR ISSUE - SHARES AND VENDOR PERFORMANCE RIGHTS (Resolution 1)

On 4 November 2016, the Company announced that it had secured an option to acquire 100% of the shares of South African registered company South African Lithium (Pty) Limited. South African Lithium (Pty) Limited has the right to acquire a 50.03% interest in Southern African Lithium and Tantalum Pty Ltd which wholly owns the Blesberg Lithium-Tantalum Project, comprising Blesberg Prospecting Right ((NC) 940 PR).

In accordance with the agreement, as consideration the Company agreed to pay:

- (i) A non-refundable option fee, to be satisfied by the issue of 7,000,000 Shares; and
- (ii) Upon exercise of the option, the issue of:
 - (a) 70,000,000 Shares;
 - (b) 40,000,000 Class A Performance Rights; and
 - (c) 40,000,000 Class B Performance Rights.

On 18 November 2017, the Company announced that following the successful completion of the due diligence process it had elected to exercise the option to acquire the 50.03% controlling interest in the Blesberg Lithium-Tantalum Project through the acquisition of South African Lithium (Pty) Limited.

Further information regarding the Blesberg Lithium-Tantalum Project and the option agreement are contained in the Company's 4 November 2016, 18 November 2016 and 21 December 2016 announcements.

The Company issued 7,000,000 Shares in satisfaction of the non-refundable option fee on 15 November 2016; and 70,000,000 Shares, 40,000,000 Class A Performance Rights and 40,000,000 Class B Performance Rights upon exercise of the option on 20 December 2016. The Shares and Vendor Performance Rights were issued within the Company's 15% annual limit permitted under Listing Rule 7.1.

Listing Rule 7.1 prohibits a company (subject to specified exceptions), without the approval of shareholders from issuing during any 12 month period any new equity securities, if the number of those securities exceeds 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

Listing Rule 7.4 provides for Shareholders in general meeting to approve a previous issue of equity securities made pursuant to Listing Rule 7.1, for the purposes of excluding that number of securities from the calculation of the Company's 15% annual placement capacity permitted under Listing Rule 7.1.

Resolution 1 seeks Shareholder approval for the ratification of the issue of 77,000,000 Shares, 40,000,000 Class A Performance Rights and 40,000,000 Class B Performance Rights pursuant to Listing Rule 7.4. The effect of Shareholders passing Resolution 1 will be to restore the

Company's ability to issue securities within the 15% annual placement capacity permitted under Listing Rule 7.1 during the next 12 months without obtaining prior Shareholder approval.

Resolution 1 is an ordinary resolution.

For the purposes of Listing Rule 7.5 the following information is provided in relation to Resolution 1:

- (a) the total number of securities issued was:
- 7,000,000 Shares on 15 November 2016;
 - 70,000,000 Shares on 20 December 2016;
 - 40,000,000 Class A Performance Rights on 20 December 2016; and
 - 40,000,000 Class B Performance Rights on 20 December 2016.
- (b) the Shares and Vendor Performance Rights were issued for nil cash consideration as they were issued as consideration for the acquisition of South African Lithium (Pty) Ltd;
- (c) the Shares comprise fully paid ordinary shares of the Company, ranking equally with all other fully paid ordinary shares of the Company on issue and the Vendor Performance Rights were issued on the terms set out in Annexure A and Annexure B;
- (d) the shares were issued to the shareholders of South African Lithium (Pty) Ltd, none of who is a related party of the Company;
- (e) no funds were raised from the issue of Shares and Vendor Performance Rights as they were issued as consideration for the acquisition of South African Lithium (Pty) Ltd; and
- (f) a voting exclusion statement is included in the Notice.

3. RATIFICATION OF PRIOR ISSUE - SHARES (Resolution 2)

On 13 March 2017, the Company announced that it had entered into an agreement to acquire two exploration licences (E51/1694 and E51/1695) adjacent to the Company's Gabanintha Vanadium Mineral Resource near Meekatharra.

Pursuant to the agreement, the Company agreed to pay to the vendors A\$100,000 in Shares based on the closing price of the Company's shares on ASX on the date of execution of the agreement. Further information regarding the acquisition is contained in the Company's 13 March 2017 announcement.

The Company issued 6,250,000 Shares to Rilukin Holdings Pty Ltd on 16 March 2017. The Shares were issued within the Company's 15% annual placement capacity permitted under Listing Rule 7.1.

A summary of Listing Rules 7.1 and 7.4 are provided on page 6 of this Notice.

Resolution 2 seeks Shareholder approval for the ratification of the issue of 6,250,000 Shares to Rilukin Holdings Pty Ltd pursuant to Listing Rule 7.4. The effect of Shareholders passing Resolution 2 will be to restore the Company's ability to issue securities within the 15% annual placement capacity permitted under Listing Rule 7.1 during the next 12 months without obtaining prior Shareholder approval.

Resolution 2 is an ordinary resolution.

For the purposes of Listing Rule 7.5 the following information is provided in relation to Resolution 2:

- (a) the total number of Shares issued was 6,250,000 on 16 March 2017;
- (b) the Shares were issued at an issue price of \$0.016;

- (c) the Shares comprise fully paid ordinary shares of the Company, ranking equally with all other fully paid ordinary shares of the Company on issue;
- (d) the Shares were issued to Rilukin Holdings Pty Ltd who is not a related party of the Company;
- (e) no funds were raised from the Share issue as they were issued for nil cash consideration as consideration to acquire two exploration licences (E51/1694 and E51/1695); and
- (f) A voting exclusion statement is included in the Notice.

4. PERFORMANCE RIGHTS AND OPTION PLAN (Resolution 3)

4.1 Introduction - resolution regarding new employee incentive scheme

The Company has introduced a new employee securities scheme which is presented to Shareholders for approval at this General Meeting.

Resolution 3 relates to the Australian Vanadium Ltd Performance Rights and Option Plan (PROP), described in more detail below.

The PROP incorporates both broad based equity participation for Eligible Participants as well as key executive incentive schemes.

4.2 Background

A summary of the key terms of the PROP is set out in Annexure C, and a copy of the rules of the PROP is available upon request from the Company.

An Eligible Participant means:

- (a) a Director (whether executive or non-executive) of any Group Company;
- (b) a full or part time employee of any Group Company;
- (c) a casual employee or contractor of a Group Company to the extent permitted by the Class Order; or
- (d) a prospective participant, being a person to whom the Offer is made but who can only accept the Offer if an arrangement has been entered into that will result in the person becoming an Eligible Participant under Rules (a), (b) or (c) above,

who is declared by the Board to be eligible to receive grants of Awards under the Plan.

The purpose of the PROP is to:

- (a) assist in the reward, retention and motivation of Eligible Participants;
- (b) link the reward of Eligible Participants to performance and the creation of Shareholder value;
- (c) align the interests of Eligible Participants more closely with the interests of Shareholders by providing an opportunity for Eligible Participants to receive Shares;
- (d) provide Eligible Participants with the opportunity to share in any future growth in value of the Company; and
- (e) provide greater incentive for Eligible Participants to focus on the Company's longer term goals.

Shareholder approval of the PROP is being sought for all purposes under the Corporations Act and the ASX Listing Rules, including ASX Listing Rule 7.2 (exception 9), so that securities issued in accordance with the PROP will be excluded from the calculation of the maximum number of new securities that can be issued by the Company in any 12 month period (currently 15% of shares previously on issue) for a period of three years from the date of approval.

If this Resolution 3 is approved by Shareholders, it will have the effect of enabling the securities issued by the Company under the PROP to be automatically excluded from the formula to calculate the number of securities which the Company may issue within the 15% in 12 months limit under Listing Rule 7.1 during the next three years period.

This is the first approval sought under Listing Rule 7.2 (exception 9) with respect to the PROP. Accordingly, no securities have previously been issued under the PROP.

4.3 PROP terms generally

The PROP is a new employee equity plan developed to meet contemporary equity design standards and to provide the greatest possible flexibility in the design and offer choices available in the various new equity schemes.

The PROP enables the Company to offer employees a range of different employee share scheme ("ESS") interests. These ESS interests or awards include options and performance rights.

The type of ESS interest that may be offered to an eligible participant will be determined by a number of factors, including:

- the eligible participants length of service with the Group;
- the contribution made by the eligible participant to the Group;
- the potential contribution of the eligible participant to the Group; and
- any other matter the Board considers relevant.

Whenever Shares are acquired under the PROP, they may be acquired and held by an Employee Share Trust ("EST"). The EST will be governed by a trust deed ("EST Trust Deed") outlining the rules of the EST and the responsibilities of the Trustee, the Company and participants and a copy of any EST Trust Deed will be available upon request from the Company. It is not the intention of the company to establish an EST.

4.4 Directors' Recommendation

The Directors unanimously recommend Shareholders vote in favour of Resolution 3. As stated in the Notice, any vote cast in respect of this resolution by a Director and their respective associates will be disregarded, except as stated in the Notice.

5. ISSUE OF EQUITY AWARDS TO DIRECTORS (Resolution 4)

5.1 Introduction

Resolution 4 seeks Shareholder approval for the granting of:

- a) 21,000,000 Performance Rights to the Managing Director, Mr Vincent Algar or his nominee, under the PROP;
- b) 21,000 000 Performance Rights to the Executive Director, Mr Leslie Ingraham or his nominee, under the PROP;
- c) 12,000,000 Performance Rights to the Non-Executive Chairman, Mr Brenton Lewis or his nominee, under the PROP; and
- d) 6,000,000 Performance Rights to the Non-Executive Director, Mr Daniel Harris or his nominee, under the PROP.

5.2 Conditional Resolution

Resolution 4 is proposed as a conditional resolution, subject to and conditional upon the approval of Resolution 3 for the adoption of the Performance Rights and Option Plan. Accordingly, if shareholders do not approve Resolution 3, this Resolution 4 will not be put to the meeting.

5.3 Why Shareholder approval is being sought

ASX Listing Rule 10.14 states that a listed company must not permit a Director to acquire securities under an employee incentive scheme without Shareholder approval, by ordinary resolution. The purpose of Resolutions 4.1 to 4.4 is to have Shareholders approve the proposed grant of Performance Rights to the Company's Directors, Mr Vincent Algar, Mr Leslie Ingraham, Mr Brenton Lewis and Mr Daniel Harris or their nominees pursuant to the Company's new employee share scheme, the Australian Vanadium Limited Performance Rights and Option Plan (the **PROP**).

More information about the PROP are contained in this Explanatory Statement under Resolution 3 and Annexure C.

5.4 Grant of PROP Interests to Mr Algar, Mr Ingraham, Mr Lewis and Mr Harris

The role and responsibilities of these Directors is material to the success of the Company.

The Board is aware that the ASX Corporate Governance Guidelines discourage participation in equity incentive schemes by Non-executive Directors.

The Board has determined that the anticipated time commitment, contacts and skills of the Non-executive Directors cannot be adequately remunerated by a conventional fee for service basis and believe that an equity incentive linked to pre-determined performance criteria will provide the best possible alignment of Board and shareholder interests, all things considered.

As outlined previously, Shareholder approval must be sought, in accordance with ASX Listing Rule 10.14, for the grant of PROP Interests to Mr Algar, Mr Ingraham, Mr Lewis and Mr Harris.

The Board has concluded that the remuneration for Mr Algar, Mr Ingraham, Mr Lewis and Mr Harris (including the proposed grants of PROP Interests) are reasonable and appropriate having regard to the circumstances of the Company and Mr Algar, Mr Ingraham, Mr Lewis and Mr Harris's duties and responsibilities.

5.5 Resolutions 4.1 to 4.4 – Issue of Performance Rights to Mr Algar, Mr Ingraham, Mr Lewis and Mr Harris

Maximum number of Performance Rights to be issued

If Shareholder approval is granted, the maximum number of Performance Rights that may be granted is 60,000,000 as follows:

- Mr Algar or his nominee – 21,000,000
- Mr Ingraham or his nominee – 21,000,000
- Mr Lewis or his nominee – 12,000,000
- Mr Harris or his nominee – 6,000,000

Subject to satisfaction of vesting criteria, each Performance Right converts to one Share.

Value of Performance Rights

The average value of these Performance Rights determined applying a conventional binomial approximation pricing model is \$0.017 per Performance Right, based on the following inputs as at 31 March 2017:

Risk-free rate: 1.89% (Derived from the 3 year Commonwealth Treasury Bond Rate)

Historical Volatility: 107% (based on the AVL closing share price for the previous 12 months)

Closing Share Price: \$0.017 (closing ASX price on 31 March 2017)

Exercise Price: \$0.00

Dividend Yield: 0.00% (based on actual dividends paid in the previous 12 months)

Price of Performance Rights

The Performance Rights will be granted at no cost to Mr Algar, Mr Ingraham, Mr Lewis and Mr Harris. Once the Vesting Conditions are met (or waived), the Performance Rights will be automatically exercised for nil consideration. Each Performance Right will convert to one Share.

Importantly, no value will be received by Mr Algar, Mr Ingraham, Mr Lewis and Mr Harris if the Performance Rights lapse prior to the vesting date.

Vesting Dates and Conditions

The Vesting Date for the Performance Rights granted to Mr Algar, Mr Ingraham, Mr Lewis and Mr Harris will be one month after the performance conditions attaching to the Performance Rights has been fulfilled.

All Performance Rights will lapse 30 days after the relevant Vesting Date, unless lapsed earlier.

The Vesting Conditions for the Performance Rights is satisfaction of the following Performance Conditions and Service Condition:

Performance Conditions:

A Performance Right is a right to be issued a Share upon satisfaction of specified performance conditions and the expiry of a vesting period. The performance conditions that are required to be satisfied for the Performance Rights to vest and convert into Shares is as follows:

- (a) In respect to one-third of the Performance Rights for each participant:

upon certification by an independent competent person on or before 19 December 2019 of a JORC Reported resource or reserve on the Blesberg Lithium-Tantalum Project of 2,000,000 tonnes at a grade of at least 0.8% Li₂O or Lithium equivalent in Beryl, Feldspar of Tantalum (reported in accordance with clause 50 of the JORC Code); and

- (b) In respect to one-third of the Performance Rights for each participant:

upon certification by an independent competent person on or before 19 December 2020 of a JORC Reported resource or reserve on the Blesberg Lithium-Tantalum Project of 4,000,000 tonnes at a grade of at least 0.8% Li₂O or Lithium equivalent in Beryl, Feldspar of Tantalum (reported in accordance with clause 50 of the JORC Code); and

- (c) In respect to one-third of the Performance Rights for each participant:

upon certification by an independent competent person on or before 19 December 2021 of a JORC Reported resource or reserve on the Blesberg Lithium-Tantalum Project of 6,000,000 tonnes at a grade of at least 0.8% Li₂O or Lithium equivalent in Beryl, Feldspar of Tantalum (reported in accordance with clause 50 of the JORC Code).

Service Condition:

Continuous employment, as defined in the PROP, from the grant date of the Performance Rights until the relevant Vesting Date.

Any Performance Rights which fail to meet the Vesting Conditions before the relevant Vesting Date shall immediately lapse.

5.6 Number of equity incentives issued under the PROP, persons entitled to participate in the PROP, the date that the Company will grant these equity securities and loans

The adoption of the PROP, under which securities are proposed to be issued to Mr Algar, Mr Ingraham, Mr Lewis and Mr Harris, is the subject of Resolution 3 of this Notice of General Meeting and has not, as at the date of this Notice been implemented. Accordingly, the Company has not previously issued or granted any securities under the PROP. It is intended that all employees and directors, including Non-executive Directors, be eligible to participate in the PROP.

Directors currently hold unvested performance rights expiring 2 February 2020 (approved by shareholders on 20 November 2015), as follows:

Mr Algar – 5,000,000
Mr Ingraham – 5,000,000
Mr Lewis – 2,000,000

Subject to shareholder approval, it is anticipated that the PROP Interests will be granted to Mr Algar, Mr Ingraham, Mr Lewis and Mr Harris or their nominee shortly after the General Meeting. Irrespective of these intentions, grants of PROP Interests approved by shareholders under this resolution will be issued within 12 months of the date of this Meeting.

Finally, no loan will be provided by the Company in relation to the grant or exercise of the PROP Interests proposed to be issued to Mr Algar, Mr Ingraham, Mr Lewis and Mr Harris.

Other Conditions

Unvested PROP Interests may, in certain circumstances, vest early in accordance with the terms of the PROP Rules, and any Leaver's Policy that may apply from time to time, as approved by the Board.

PROP Interests cannot be transferred, disposed of, or have a security interest imposed over them without Board consent.

Any dealing in Shares is subject to the constraints of Australian insider trading laws and the Company's Share Trading Policy. Participants are specifically prohibited from hedging their Company share price exposure in respect of their PROP Interests during the vesting period.

If, in the Board's opinion Mr Algar, Mr Ingraham, Mr Lewis and Mr Harris have acted fraudulently or dishonestly or are in breach of their material obligations to the Company, the Board may determine that any or all of their PROP Interests which have not yet vested, lapse.

Directors' Recommendation

The Directors have a vested interest in the proposed issue of Performance Rights and therefore make no recommendation, however they note that the benefit, if any, from the grant of the Performance Rights will only flow if the performance milestone vesting conditions are met triggering the conversion of the Performance Rights, which would be value accretive to all Shareholders. The Directors also consider the quantum of Performance Rights to be reasonable in the circumstances.

As stated in the Notice of General Meeting, any vote cast in respect of this resolution by a member of the Board or KMP or any person who participates in the issue of PROP Interests, and their respective associates, will be disregarded, except as stated in the Notice of General Meeting.

6. DEFINITIONS

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ABN 98 008 624 691.

ASX Listing Rules means the official listing rules of ASX.

Australian Vanadium or the Company means Australian Vanadium Ltd ACN 116 221 740.

Class A Performance Right means a right to a Share issued on the terms and conditions set out in Annexure A.

Class B Performance Right means a right to a Share issued on the terms and conditions set out in Annexure B.

Corporations Act means the Corporations Act 2001 (Cth).

Directors means the current directors of the Company.

Explanatory Statement means this Explanatory Statement.

JORC Code means the 'Australian Code for Reporting of Mineral Resources and Ore Reserves' prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia, as amended or replaced from time to time.

JORC Reported means reported in accordance with the JORC Code.

Meeting or General Meeting means the general meeting of Shareholders to be held on 12 June 2017.

Notice or Notice of Meeting or Notice of General Meeting means the notice of general meeting which forms part of this Explanatory Statement.

Ordinary Securities has the meaning set out in the ASX Listing Rules.

Performance Right has the meaning given in Section 5 of the Explanatory Statement.

Vendor Performance Right means a Class A Performance Right or Class B Performance Right individually or in combination, as the circumstance requires.

Resolution means a resolution contained in this Notice.

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

Shareholder means the holder of a fully paid ordinary share in the capital of the Company

Annexure A

TERMS AND CONDITIONS OF CLASS A PERFORMANCE RIGHTS

- (i) **Conversion on achievement of milestone:** Each Class A Performance Right will automatically convert into one new ordinary fully paid share in Australian Vanadium Limited on satisfactory achievement of the following condition (**Vesting Condition**):

Upon Australian Vanadium Limited electing to proceed with further exploration on the Blesberg Lithium-Tantalum Project following completion of the first drilling programme of at least 2,000 metres.

- (ii) **Lapse:** A Performance Right will lapse on the earliest to occur of:
- (a) subject to any automatic vesting in accordance with other terms, if applicable Vesting Condition has not been met; or
 - (b) the expiry date which will be 5:00PM WST on 19 June 2018.
- (iii) **Transfer:** The Performance Rights are not transferable.
- (iv) **No voting rights:** The Performance Rights do not entitle the Holder to vote on any resolutions proposed at a general meeting of Shareholders of the Company, subject to any voting rights under the Corporations Act or the ASX Listing Rules where such rights cannot be excluded by these terms.
- (v) **No dividend rights:** The Performance Rights do not entitle the holder to any dividends.
- (vi) **No rights to return of capital:** The Performance Rights do not entitle the holder to a return of capital, whether in a winding up, upon a reduction of capital or otherwise.
- (vii) **Rights on winding up:** Upon the winding up of the Company, the Performance Rights may not participate in the surplus profits or assets of the Company.
- (viii) **Change of Control:** All unvested Performance Rights automatically vest and are automatically exercised on the occurrence of a change of control, subject to the total number of ordinary shares that the Performance Rights A and Performance Rights B, in aggregate, convert into not being more than 10% of the issued ordinary capital of Australian Vanadium Limited as at the date of conversion.
- (ix) **Reorganisation:** In the event of any reorganisation (including consolidation, subdivision, reduction or return) of the issued shares, the number of Performance Rights to which each Performance Rights holder is entitled will be adjusted in the manner provided for in the ASX listing rules applicable at the time the reorganisation comes into effect.
- (x) **No quotation:** The Performance Rights will not be quoted on ASX. However if the Company is listed on the ASX, at the time of conversion of the Performance Rights into Shares in accordance with these terms, the Company will within seven (7) days after the later of conversion and any escrow period ending, apply for the official quotation of the Shares arising from the conversion on ASX.
- (xi) **Participation in entitlements and bonus issues:** Holders of Performance Rights will not be entitled (in their capacity as a Holder of a Performance Right) to participate in new issues of capital offered to holders of the Shares such as bonus issues and entitlement issues.
- (xii) **No other rights:** The Performance Rights give the holders no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

Change of Control means:

- (a) a Takeover Bid is made to acquire all Shares of Australian Vanadium Limited, a person obtains a Voting Power in Australian Vanadium Limited of more than 50%, and the Takeover Bid is or has become unconditional; or
- (b) a Court has sanctioned a compromise or arrangement (other than for the purpose of, or in connection with, a scheme for the reconstruction of Australian Vanadium Limited or its amalgamation with any other entity or entities).

For personal use only

Annexure B

TERMS AND CONDITIONS OF CLASS B PERFORMANCE RIGHTS

- (i) **Conversion on achievement of milestone:** Each Class B Performance Right will automatically convert into one new ordinary fully paid share in Australian Vanadium Limited on satisfactory achievement of the following condition (**Vesting Condition**):
- upon certification by an independent competent person on or before 19 December 2019 of a JORC Reported resource or reserve on the Blesberg Lithium-Tantalum Project of 2,000,000 tonnes at a grade of at least 0.8% Li₂O or Lithium equivalent in Beryl, Feldspar of Tantalum (reported in accordance with clause 50 of the JORC Code).
- (ii) **Lapse:** A Performance Right will lapse on the earliest to occur of:
- (a) subject to any automatic vesting in accordance with other terms, if applicable Vesting Condition has not been met; or
 - (b) the expiry date which will be 5:00PM WST on 19 December 2019.
- (iii) **Transfer:** The Performance Rights are not transferable.
- (iv) **No voting rights:** The Performance Rights do not entitle the Holder to vote on any resolutions proposed at a general meeting of Shareholders of the Company, subject to any voting rights under the Corporations Act or the ASX Listing Rules where such rights cannot be excluded by these terms.
- (v) **No dividend rights:** The Performance Rights do not entitle the holder to any dividends.
- (vi) **No rights to return of capital:** The Performance Rights do not entitle the holder to a return of capital, whether in a winding up, upon a reduction of capital or otherwise.
- (vii) **Rights on winding up:** Upon the winding up of the Company, the Performance Rights may not participate in the surplus profits or assets of the Company.
- (viii) **Change of Control:** All unvested Performance Rights automatically vest and are automatically exercised on the occurrence of a change of control, subject to the total number of ordinary shares that the Performance Rights A and Performance Rights B, in aggregate, convert into not being more than 10% of the issued ordinary capital of Australian Vanadium Limited as at the date of conversion.
- (ix) **Reorganisation:** In the event of any reorganisation (including consolidation, subdivision, reduction or return) of the issued shares, the number of Performance Rights to which each Performance Rights holder is entitled will be adjusted in the manner provided for in the ASX listing rules applicable at the time the reorganisation comes into effect.
- (x) **No quotation:** The Performance Rights will not be quoted on ASX. However if the Company is listed on the ASX, at the time of conversion of the Performance Rights into Shares in accordance with these terms, the Company will within seven (7) days after the later of conversion and any escrow period ending, apply for the official quotation of the Shares arising from the conversion on ASX.
- (xi) **Participation in entitlements and bonus issues:** Holders of Performance Rights will not be entitled (in their capacity as a Holder of a Performance Right) to participate in new issues of capital offered to holders of the Shares such as bonus issues and entitlement issues.
- (xii) **No other rights:** The Performance Rights give the holders no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

Change of Control means:

- (a) a Takeover Bid is made to acquire all Shares of Australian Vanadium Limited, a person obtains a Voting Power in Australian Vanadium Limited of more than 50%, and the Takeover Bid is or has become unconditional; or
- (b) a Court has sanctioned a compromise or arrangement (other than for the purpose of, or in connection with, a scheme for the reconstruction of Australian Vanadium Limited or its amalgamation with any other entity or entities).

For personal use only

Annexure C

SUMMARY OF PROP KEY TERMS AND KEY POLICY SETTINGS

Eligibility

Participants in the PROP may be:

- (a) a Director (whether executive or non-executive) of any Group Company;
- (b) a full or part time employee of any Group Company;
- (c) a casual employee or contractor of a Group Company to the extent permitted by ASIC Class Order 14/1000 as amended or replaced (**Class Order**); or
- (d) a prospective participant, being a person to whom the Offer is made but who can only accept the Offer if an arrangement has been entered into that will result in the person becoming an Eligible Participant under Rules (a), (b) or (c) above,

who is declared by the Board to be eligible to receive grants of Awards under the Plan.

Awards

Awards means Options or Performance Rights, as the context requires, granted under the Plan.

Option

Option means an option granted pursuant to the Rules to subscribe for a Share upon and subject to the terms of the Rules and the terms of any applicable Offer.

Performance Right

Performance Right means a right to acquire a Share, subject to satisfaction of any Vesting Conditions, and the corresponding obligation of the Company to provide the Share, under a binding contract made by the Company and an Eligible Participant in the manner set out in the Plan and any applicable Offer.

Offer

The Board may, from time to time, in its absolute discretion, make a written offer to any Eligible Participant (including an Eligible Participant who has previously received an offer) to apply for up to a specified number of Awards, upon the terms set out in the Plan and upon such additional terms and conditions as the Board determines.

Vesting conditions

The vesting of any securities issued under the PROP may be conditional on the satisfaction of performance and/or service conditions as determined by the Board and advised to the employee in the individual's offer documents.

Vesting

The Board may in its absolute discretion, except in respect of paragraph (b), where vesting conditions are deemed to be automatically waived, by written notice to a Participant (being an Eligible Participant to whom Awards have been granted under the PROP or their nominee where the Awards have been granted to the nominee of the Eligible Participant (**Relevant Person**)), resolve to waive any of the Vesting Conditions applying to Awards due to:

- (i) Special Circumstances arising in relation to a Relevant Person in respect of those Awards, being:

For personal use only

- (A) a Relevant Person ceasing to be an Eligible Participant due to:
- (I) death or Total or Permanent Disability of a Relevant Person; or
 - (II) Retirement or Redundancy of a Relevant Person;
- (B) a Relevant Person suffering Severe Financial Hardship;
- (C) any other circumstance stated to constitute "Special Circumstances" in the terms of the relevant Offer made to and accepted by the Participant; or
- (D) any other circumstances determined by the Board at any time (whether before or after the Offer) and notified to the relevant Participant which circumstances may relate to the Participant, a class of Participant, including the Participant or particular circumstances or class of circumstances applying to the Participant; or
- (ii) a Change of Control occurring; or
- (iii) the Company passing a resolution for voluntary winding up, or an order is made for the compulsory winding up of the Company.

Exercise of securities

Vested securities issued under the PROP will not automatically trigger the exercise of the securities, but a participant will be entitled to exercise in accordance with the terms contained in the invitation to the individual.

Issue price

- (a) Performance Rights granted under the Plan will be issued for nil cash consideration.
- (b) Unless the Options are quoted on the ASX, Options issued under the Plan will be issued for no more than nominal cash consideration.

Lapse of an Award

An Award will lapse upon the earlier to occur of:

- (i) an unauthorised dealing in the Award;
- (ii) a Vesting Condition in relation to the Award is not satisfied by its due date, or becomes incapable of satisfaction, unless the Board exercises its discretion to waive the Vesting Conditions and vest the Award in the circumstances set out in paragraph **Error! Reference source not found.** or the Board resolves, in its absolute discretion, to allow the unvested Awards to remain unvested after the Relevant Person ceases to be an Eligible Participant;
- (iii) in respect of unvested Awards only, an Eligible Participant ceases to be an Eligible Participant, unless the Board exercises its discretion to vest the Award in the circumstances set out in paragraph **Error! Reference source not found.** or the Board resolves, in its absolute discretion, to allow the unvested Awards to remain unvested after the Relevant Person ceases to be an Eligible Participant;
- (iv) in respect of vested Awards only, a relevant person ceases to be an Eligible Participant and the Award granted in respect of that person is not exercised within one (1) month (or such later date as the Board determines) of the date that person ceases to be an Eligible Participant;
- (v) the Board deems that an Award lapses due to fraud, dishonesty or other improper behaviour of the Eligible Participant;

- (vi) the Company undergoes a Change of Control or a winding up resolution or order is made and the Board does not exercise its discretion to vest the Award;
- (vii) the expiry date of the Performance Right.

Restriction period

- (a) The Board may, in its discretion, determine at any time up until exercise of an Award, that a restriction period will apply to some or all of the Shares issued to a Participant on exercise of those Awards (Restricted Shares), up to a maximum of five (5) years from the Grant Date of the Awards (Restriction Period).
- (b) The Board may, in its sole discretion, having regard to the circumstances at the time, waive a Restriction Period determined pursuant to (a).
- (c) A Participant must not dispose of or otherwise deal with any Shares issued to them under the Plan while they are Restricted Shares.

Change of Control

If a company (**Acquiring Company**) obtains control of the Company as a result of a Change of Control and the Company, the Acquiring Company and the Participant agree, a Participant may, in respect of any vested Awards that are exercised, be provided with shares of the Acquiring Company, or its parent, in lieu of Shares, on substantially the same terms and subject to substantially the same conditions as the Shares, but with appropriate adjustments to the number and kind of shares subject to the Awards.

No dealing or hedging

Dealing restrictions apply to securities issued under the PROP in accordance with the rules of the PROP and the Company's share trading policy. Participants are prohibited from hedging or otherwise protecting the value of unvested securities issued under the PROP.

Rights attaching to Shares

Shares issued under the plan will rank equally for dividends and other entitlements, be subject to any restrictions imposed under these rules and otherwise rank equally with the existing Shares on issue at the time of allotment.

Adverse Tax

Where a Participant may suffer an adverse taxation consequence as a direct result of participating in the Plan that was not apparent to the Participant or the Company at the time the Participant was issued Awards under the Plan, the Board may, in its absolute discretion, agree to compensate the Participant in whole or in part.

Plan limit

The Company must have reasonable grounds to believe, when making an offer, that the number of Shares to be received on exercise of Awards offered under an offer, when aggregated with the number of Shares issued or that may be issued as a result of offers made in reliance on the Class Order at any time during the previous 3 year period under an employee incentive scheme covered by the Class Order or an ASIC exempt arrangement of a similar kind to an employee incentive scheme, will not exceed 5% of the total number of Shares on issue at the date of the offer.

Participation Rights

- (a) There are no participation rights or entitlements inherent in the Awards and Participants will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Awards without exercising the Award.

- For personal use only
- (b) An Award does not confer the right to a change in Exercise Price or in the number of underlying Shares over which the Award can be exercised.
 - (c) An Award does not confer the right to a change in the number of underlying Shares over which the Award can be exercised.
 - (d) A Participant who is not a Shareholder is not entitled to:
 - (i) notice of, or to vote or attend at, a meeting of the Shareholders of the Company;
or
 - (ii) receive any dividends declared by the Company,unless and until any Award is exercised and the Participant holds Shares that provide the right to notice and dividends.

Reorganisation

If, at any time, the issued capital of the Company is reorganised (including consolidation, subdivision, reduction or return), all rights of a holder of an Award are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reorganisation.

Trust

The Board may, at any time, establish a trust for the sole purpose of acquiring and holding Shares in respect of which a Participant may exercise, or has exercised, vested Awards, including for the purpose of enforcing the disposal restrictions and appoint a trustee to act as trustee of the trust. The trustee will hold the Shares as trustee for and on behalf of a Participant as beneficial owner upon the terms of the trust. The Board may at any time amend all or any of the provisions of the Plan to effect the establishment of such a trust and the appointment of such a trustee.

PROXY FORM

The Secretary
Australian Vanadium Limited
Level 1, 85 Havelock Street
West Perth WA 6005

I/We (full name)

of _____

being a member(s) of Australian Vanadium Limited, hereby appoint as my/our proxy

of _____

or, failing him/her the Chairperson of the Meeting to attend and vote for me/us at the general meeting of the Company to be held at 10.00am on Monday, 12 June 2017 and at an adjournment thereof in respect of _____% of my/our shares or, failing any number being specified, ALL of my/our shares in the Company.

RESOLUTIONS

	FOR	AGAINST	ABSTAIN
1 Ratification of Prior Issue – Shares and Vendor Performance Rights	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Ratification of Prior Issue – Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Performance Rights and Option Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.1 Issue of Equity Awards – Vincent Algar	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.2 Issue of Equity Awards – Leslie Ingraham	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.3 Issue of Equity Awards – Brenton Lewis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.4 Issue of Equity Awards – Daniel Harris	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Where permitted, the Chairman intends to vote all undirected proxies in favour of all resolutions.

If the member is an individual or joint holder:

Usual Signature

Dated this _____ day of

Usual Signature

2017.

If the member is a Company:

Signed in accordance with the
Constitution of the company
in the presence of:

Director/Sole Director

Director/Secretary

Sole Director and Sole Secretary

Dated this _____ day of

2017.

For personal use only

INSTRUCTIONS FOR COMPLETING PROXY FORM

NOTES

1. A member entitled to attend and vote is entitled to appoint not more than two proxies.
2. Where more than one proxy is appointed and that appointment does not specify the proportion or number of the member's votes, each proxy may exercise half of the votes.
3. A proxy need not be a member of the Company.
4. A proxy is not entitled to vote unless the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed is either deposited at the registered office of the Company (refer below) or sent by facsimile to that office on Fax: 08 6268 2699 to be received not less than 48 hours prior to the time of the Meeting.
5. Signing Instructions

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

Joint Holding: where the holding is in more than one name, all of the Shareholders must sign.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the Company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director may sign alone. Otherwise this form must be signed by a Director jointly with either another Director or Company Secretary. Please indicate the office held in the appropriate place.

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be lodged with the Company before the meeting or at the registration desk on the day of the meeting.

LODGING YOUR PROXY FORM

To be valid, your proxy form (and any power of attorney under which it is signed) must be received at the address given below no later than 10.00am (WST) on 10 June 2017. Any proxy form received after that time will not be valid for the scheduled meeting.

In person: Australian Vanadium Limited
Level 1
85 Havelock Street
West Perth WA 6005

By mail: Australian Vanadium Limited
Level 1
85 Havelock Street
West Perth WA 6005

By email: info@australianvanadium.com.au

By fax: (08) 6268 2699