

8 March 2016



Dear Option holder,

Non-Renounceable Rights Issue

I am writing to you as the holder of unlisted options issued by Australian Vanadium Limited (ACN 116 221 740) (**Company** or **AVL**) with an exercise price of \$0.015 and exercisable on or before 31 December 2017 (**Unlisted Options**).

The Company has announced a non-renounceable pro rata entitlement offer of 1 new share for every 3 existing shares held as at 7pm (AEDT) on 17 March 2016 (**Record Date**), at an issue price of \$0.013 per new share, with 1 free attaching new option (exercisable at \$0.02 on or before 31 December 2018) for every new share issued, to raise up to approximately \$3.32M before issue costs (**Offer**).

The Offer will be made under a prospectus which will be lodged with ASIC on or about 9 March 2016. The prospectus will be available on both the ASX's and the Company's websites. The prospectus and personalised entitlement and acceptance forms will be dispatched to eligible shareholders soon after the Record Date.

The closing price for the Company's shares on 3 March 2016 was \$0.016, a premium to the exercise price for Unlisted Options. The highest and lowest sale price of the Company's shares during the three months immediately before the date of this letter was \$0.022 and \$0.007 respectively.

The purpose of this letter is to give you notice that if you wish to participate in the Offer with respect to your Unlisted Options, you must exercise your options in accordance with the instructions set out in the enclosed Application Form on Exercise of Unlisted Options on or before the Record Date.

In order to exercise your options, please follow the steps set out in the Application Form on Exercise of Unlisted Options enclosed by completing and returning the attached Application Form on Exercise of Unlisted Options along with a cheque, bank draft or money order. Option holders who would like to exercise their Unlisted Options should urgently contact the Company for bank account details.

To participate in the Offer, Unlisted Options must be exercised on or before the Record Date.

All new shares issued upon exercise of the Unlisted Options will rank equally with existing shares.

If you do not wish to participate in the Offer (in respect of your Unlisted Options) you do not need to take any action. The exercise price of your Unlisted Options will be adjusted in accordance with Listing Rule 6.22.2.

Before deciding whether to exercise all or any of your Unlisted Options, you should consult with your professional advisor.

Eligible shareholders need to read the prospectus carefully and complete the personalised entitlement and acceptance form that will accompany the prospectus to acquire new shares under the Offer.

Yours faithfully

Neville Bassett
Company Secretary

Application Form on Exercise of Unlisted Options Expiring 31 December 2017

To the Directors, Australian Vanadium Limited,

I/We hereby exercise option(s) and hand you herewith my/our cheque for

being \$0.015 per share on application for shares in the capital of the Company.

I/We request that you allot me that number of shares and I/we agree to accept that number of shares on the terms below and the Constitution of the Company, and I/we authorise you to place my/our name on the register.

My/Our SRN/HIN (as shown on my/our Issuer Sponsored holding statement or CHESS holdings statement) is

Sign Here – This section must be signed for your instructions to be executed

I/We authorise you to act in accordance with my/our instructions set out above.

Individual or Securityholder 1

Director

Securityholder 2

Director/Company Secretary

Securityholder 3

Sole Director and
Sole Company Secretary

Day/Date Month Year

Note: when signed under Power of Attorney, the attorney states that they have not received a notice of revocation. Computershare Investor Services Pty Limited needs to sight a certified copy of the Power of Attorney.

Contact Name

Contact Telephone Number

Terms and
Conditions
Attached

LODGEMENT INSTRUCTIONS

Cheques shall be in Australian currency made payable to Australian Vanadium Limited and crossed "Not Negotiable". The application for shares on exercise of the options with the appropriate remittance should be lodged at the Company's Registry, Computershare Investor Services Pty Limited, GPO Box D182, Perth WA 6840.

TERMS & CONDITIONS OF UNLISTED OPTIONS EXPIRING 31 DECEMBER 2017

The Unlisted Options entitle the holder to subscribe for Shares on the following terms and conditions:

- a) The Optionholder is entitled on payment of \$0.015 (Exercise Price) to be allotted one Share for each Option exercised (subject to possible adjustments referred to below).
- (b) The Options held by the Optionholder are exercisable in whole or in part at any time before 31 December 2017 (Exercise Period). Options not exercised before the expiry of the Exercise Period will lapse.
- (c) Options are exercisable by notice in writing to the AVL Board delivered to the registered office of AVL and payment of the Exercise Price in cleared funds. Some or all of the Options may be exercised at any one time or times prior to the expiry of the Exercise Period provided that no less than 1,000 Options are exercised at any one time (provided that an Optionholder holding less than 1,000 Options may exercise all but not part of those Options).
- (d) Options are transferable subject to the Corporations Act and ASX Listing Rules.
- (e) An Optionholder may only participate in new issues of securities to holders of AVL Shares if the Option has been exercised and Shares allotted in respect of the Option before the record date for determining entitlements to the issue. AVL 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.
- (f) If there is a bonus issue to the holders of AVL Shares, the number of AVL Shares over which the Option is exercisable will be increased by the number of AVL Shares which the Optionholder would have received if the Option had been exercised before the record date for the bonus issue.
- (g) If AVL makes a rights issue (other than a bonus issue), the Exercise Price of Options on issue will be reduced according to the Listing Rules.
- (h) If, during the currency of the Options the issued capital of AVL is reorganised, those Options will be reorganised to the extent necessary to comply with Listing Rules.

For personal use only