

3 August 2017

# ASX ANNOUNCEMENT



## NOTICE OF GENERAL MEETING & PROPOSED CHANGE OF COMPANY NAME

**ASX: AVI**

Avalon Minerals Limited (“**Avalon**” or “**Company**”) (**ASX:AVI**) is pleased to provide the following documentation that are today being despatched to all shareholders of the Company.

### 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  
www.avalonminerals.com.au

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.

One of the resolutions to be put to the meeting is the proposal to change the Company name to Sunstone Metals Limited.

The change reflects the increasingly promising outlook for the Bramaderos gold-copper project in Ecuador, where the Company has generated encouraging results from its recent field program, confirming the highly prospective nature of the Bramaderos Project for the potential discovery of porphyry-related gold-copper and epithermal gold systems.

The Board believes that the name of the Company should reflect its strategic direction, and with the Company’s move into Ecuador, the focus is shifting from Scandinavia alone, with which the name Avalon Minerals has been historically associated.

A Sunstone is a fabled mineral that the Vikings used to navigate as they explored the world beyond Scandinavia, therefore the Board believe that Sunstone Metals is the ideal name to carry the Company on its journey to explore beyond Scandinavia.

Sunstone also relates to a mineral/gemstone with inclusions of copper, which, along with gold, are the main metals for which the Company is exploring.

**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)



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

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**NOTICE OF GENERAL MEETING**  
**EXPLANATORY MEMORANDUM**

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**Date of Meeting**

Monday  
4 September  
2017

**Time of Meeting**

11.00 am  
(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 11.00 am (Qld time) on Monday, 4 September 2017 at the registered office of Avalon Minerals Limited, Gardner House, 9 Gardner Close, Milton, Queensland.

**RESOLUTION 1: Ratification of prior issue of placement 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 97,627,070 Shares at an issue price of \$0.014 (1.4 cents) to the allottees as set out in the Explanatory Memorandum.”*

**RESOLUTION 2: 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 65,084,710 Shares at an issue price of \$0.014 (1.4 cents) to the allottees as set out in the Explanatory Memorandum.”*

**RESOLUTION 3: 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 2,250,000 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.”*

**SPECIAL BUSINESS**

**RESOLUTION 4: Change of Company Name**

To consider and, if thought fit, pass with or without amendment, the following resolution as a **special resolution**:

*“That for all purposes, Shareholders approve the change of the name of the Company to Sunstone Metals Limited on the terms and conditions in the Explanatory Memorandum.”*

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

**DATED 27 July 2017  
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 2 September 2017 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, other than Resolution 4, are ordinary resolutions. Resolution 4 is a special resolution.

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 and 2

The Company will disregard any votes cast on Resolutions 1 and 2 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) Resolution 3

(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 3 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 3 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 11.00 am (Qld time) on 2 September 2017.

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 3 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 3 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, excluding Resolution 3.

#### 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 Monday, 4 September 2017. 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 4 (inclusive).

## **RESOLUTIONS 1 and 2 – Ratification of the prior issue of placement Shares under Listing Rules 7.1 and 7.1A**

### ***Background***

Resolutions 1 and 2 seek ratification by Shareholders of the issue of 162,711,777 Shares to the Allottees set out below on 12 July 2017.

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

- (a) 97,627,070 Shares were issued under the Company's annual 15% placement capacity under Listing Rule 7.1; and
- (b) 65,084,707 Shares were issued under the Company's additional 10% placement capacity under Listing Rule 7.1A.

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.

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 16 November 2016.

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 1 and 2 seek Shareholder approval for and ratification of the issue of: -

- (a) 97,627,070 Shares issued under the Company's annual 15% placement capacity under Listing Rule 7.1 (Resolution 1); and
- (b) 65,084,707 Shares issued under the Company's additional 10% placement capacity under Listing Rule 7.1A (Resolution 2),

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 1 and 2:

<b>Required disclosure</b>	
<i>Number of securities allotted</i>	Total of 162,711,777 Shares were issued, where: <ul style="list-style-type: none"><li>(i) 97,627,070 Shares were issued under the Company's annual 15% placement capacity under Listing Rule 7.1 (Resolution 1); and</li><li>(ii) 65,084,707 Shares were issued under the Company's additional 10% placement capacity under Listing Rule 7.1A (Resolution 2).</li></ul>
<i>Issue price</i>	\$0.014 (1.4 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 2017.
<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>• 162,711,777 Shares to professional and sophisticated investors</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>• Exploration at the Bramaderos gold-copper project in southern Ecuador;</li><li>• A 1,500m diamond drilling program at Avalon's Satulinmäki gold prospect in southern Finland;</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 1 and 2.

**RESOLUTION 3 – Approval to issue up to 2,250,000 Performance Rights to CEO/Managing Director, Malcolm Norris, or his nominee.**

***Background***

The Board is seeking Shareholder approval for Resolution 3 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 3 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 3 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 3 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 3 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 2,250,000 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 4,083,000 prior Performance Rights under the plan, with 389,644 of these having 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 3 are set out in Annexure A 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) 2,250,000 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 750,000 performance rights to vest upon the Closing Price of Avalon Shares being \$0.036 or more for 10 consecutive trading days and Total Shareholder Return ("TSR") performance at least equal to that of the ASX Small Resources Index. Testing will be annually on the anniversary of grant date;</p> <p>b) Tranche 2 – 33.33% or 750,000 performance rights to vest upon TSR 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 – 33.33% or 750,000 performance rights to vest upon the Closing Price of Avalon Shares being \$0.06 or more for 10 consecutive trading days and TSR performance at least equal to that of the ASX Small Resources Index. Testing will be annually on the anniversary of grant date.</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) \$27,225.</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 2018 financial year and beyond, to deliver superior performance that creates shareholder value.</p> <p><i>Closing share price \$0.036 or more for 10 consecutive days?</i></p> <p>This vesting condition was chosen as it represents a share price double the Volume Weighted Average Price (“VWAP”) paid by shareholders for any Equity issues during the 2017 financial year, and an 80% premium to the highest placement price in that period. It is more than 2.5 times the July 2017 placement price of \$0.014.</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 \$0.06 or more for 10 consecutive days?</i></p> <p>This vesting condition was chosen as it represents a share price equal to 4 times the closing price at 30 June 2017 of \$0.015, and also reflects more than three times the VWAP paid by shareholders for any Equity issues during the 2017 financial year.</p>

Valuation of the financial benefit	<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, the Hoadley Hybrid ESO model, 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> <ul style="list-style-type: none"> <li>a) value of the underlying asset – share price of \$0.015 being the closing share price on ASX as at the date of the Valuation, 30 June 2017;</li> <li>b) vesting conditions – as referred to above;</li> <li>c) expected volatility of the share price – 140% as calculated by Hoadley's volatility calculator for a 3-year period;</li> <li>d) expected volatility of the ASX Small Resources Index – 30%;</li> <li>e) risk free rate – the Australian Government 3-year bond rate as at 30 June 2017 of 1.94%;</li> <li>f) time to maturity – the Performance Rights expire 3 years from the date of issue; and</li> <li>g) expected dividend yield – Nil, given the Company is a mineral exploration company with no history of paying dividends.</li> </ul> <p>Based on the assumptions outlined above, Pitcher Partners calculated the value of the Performance Rights to be \$27,225, with a total value for each Tranche as follows:</p> <ul style="list-style-type: none"> <li>• Tranche 1 – \$0.0132 per Share Right = \$9,900</li> <li>• Tranche 2 – \$0.0120 per Share Right = \$9,000</li> <li>• Tranche 3 – \$0.0111 per Share Right = \$8,325</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 3.
Date of issue of the Performance Rights	If Resolution 3 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="395 421 1362 633"> <thead> <tr> <th data-bbox="395 421 715 488">Related party</th> <th data-bbox="715 421 1362 488">Current financial year remuneration*</th> </tr> </thead> <tbody> <tr> <td data-bbox="395 488 715 633">Mr Malcolm Norris</td> <td data-bbox="715 488 1362 633">\$294,300 per annum comprised of a salary of \$270,000 per annum and superannuation of 9.5% 2,250,000 Performance Rights per Resolution 3</td> </tr> </tbody> </table> <p data-bbox="395 651 1018 685">*Paid pursuant to service contracts with the Company.</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% 2,250,000 Performance Rights per Resolution 3												
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Mr Malcolm Norris	\$294,300 per annum comprised of a salary of \$270,000 per annum and superannuation of 9.5% 2,250,000 Performance Rights per Resolution 3																
Securities held in the Company	<p>The relevant current interests (i.e. before Resolution 3 is approved) of Mr Norris in the securities of the Company are set out below*:</p> <table border="1" data-bbox="395 792 1353 927"> <thead> <tr> <th data-bbox="395 792 683 860">Related party</th> <th data-bbox="683 792 895 860">Shares</th> <th data-bbox="895 792 1070 860">Options</th> <th data-bbox="1070 792 1353 860">Performance Rights</th> </tr> </thead> <tbody> <tr> <td data-bbox="395 860 683 927">Mr Malcolm Norris</td> <td data-bbox="683 860 895 927">8,990,516</td> <td data-bbox="895 860 1070 927">4,625,000</td> <td data-bbox="1070 860 1353 927">3,693,356</td> </tr> </tbody> </table> <p data-bbox="395 943 1415 1003">If Resolution 3 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 below:</p> <table border="1" data-bbox="395 1014 1353 1144"> <thead> <tr> <th data-bbox="395 1014 683 1081">Related party</th> <th data-bbox="683 1014 895 1081">Shares</th> <th data-bbox="895 1014 1070 1081">Options</th> <th data-bbox="1070 1014 1353 1081">Performance Rights</th> </tr> </thead> <tbody> <tr> <td data-bbox="395 1081 683 1144">Mr Malcolm Norris</td> <td data-bbox="683 1081 895 1144">8,990,516</td> <td data-bbox="895 1081 1070 1144">4,625,000</td> <td data-bbox="1070 1081 1353 1144">5,943,356</td> </tr> </tbody> </table>	Related party	Shares	Options	Performance Rights	Mr Malcolm Norris	8,990,516	4,625,000	3,693,356	Related party	Shares	Options	Performance Rights	Mr Malcolm Norris	8,990,516	4,625,000	5,943,356
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Mr Malcolm Norris	8,990,516	4,625,000	3,693,356														
Related party	Shares	Options	Performance Rights														
Mr Malcolm Norris	8,990,516	4,625,000	5,943,356														
Dilution effect the issue of the Performance Rights will have on existing Shareholders	<p>If all the Performance Rights currently held by Mr Norris and to be granted to Mr Norris pursuant to Resolution 3 vest, a total of 5,943,356 Shares would be allotted and issued. This would increase the total number of Shares on issue from 813,558,911 to 819,502,267 (assuming no other Performance Rights or Shares are issued or Options exercised, and excluding the shares to be issued under the Share Purchase Plan with closing date of 21 July 2017), with the effect that the shareholding of existing Shareholders would be diluted by 0.7%.</p>																

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 Resolution 3:

Current shares issued	813,558,911
Shares issued assuming all existing Options 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 3	5,943,356
<b>Total shares</b>	824,127,267
Dilution effect	1.3%

#### Additional information and Directors' recommendation

Mr Norris declines to make a recommendation to Shareholders in relation to Resolution 3 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 3, recommend that Shareholders vote in favour of Resolution 3. 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 3.

**Recommendation:** The Board, with Mr Norris abstaining, unanimously recommend that Shareholders vote in favour of Resolution 3.

## SPECIAL BUSINESS

### RESOLUTION 4 – Change of Company Name

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#### *Purpose of resolution*

Resolution 4 is a special resolution and seeks the approval of Shareholders for the Company to change its name to Sunstone Metals Limited.

Special resolutions require the support of at least 75% of the votes cast.

The Board believes that the name of the Company should be reflective of its strategic direction. With the Company's move into Ecuador, the focus is shifting from purely Scandinavia, with which the name Avalon Minerals has been historically associated with.

A Sunstone is a fabled mineral that the Vikings used to navigate as they explored the world beyond Scandinavia, and hence the Board believes Sunstone Metals Limited is the ideal name to carry the Company on its journey to explore the world beyond Scandinavia. Sunstone also relates to a mineral/gemstone with inclusions of copper, which, along with gold, is the main metal the Company is exploring for.

If Resolution 4 is passed the change of name will take effect when ASIC alters the details of the Company's registration and the Constitution of the Company is amended to reflect the change of name.

The proposed name has been reserved by the Company and if Resolution 4 is passed, the Company will lodge a copy of the special resolution with ASIC following the meeting in order to effect the change.

It is proposed that the Company's ASX listing code will also change from 'AVI' to 'STM'.

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

## 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  
CEO/MANAGING DIRECTOR PERFORMANCE RIGHTS**

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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. 2,250,000 Performance Rights issued to the CEO/Managing Director are subject to the following performance related vesting conditions:
  - a) 33.33% or 750,000 performance rights to vest upon the Closing Price of Avalon Shares being \$0.036 or more for 10 consecutive trading days and Total Shareholder Return ("TSR") performance at least equal to that of the ASX Small Resources Index. Testing will be annually on the anniversary of grant date;
  - b) 33.33% or 750,000 performance rights to vest upon 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 750,000 performance rights to vest upon the Closing Price of Avalon Shares being \$0.06 or more for 10 consecutive trading days and TSR performance at least equal to that of the ASX Small Resources Index. Testing will be annually on the anniversary of grant date.
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.