ASX ANNOUNCEMENT

30 November 2018

Annual General Meeting
Managing Director's Address

Good Morning Ladies and Gentlemen and welcome to AVZ Minerals Limited Annual General Meeting.

My aim today is to give you an overview of the year's progress and what we see ahead for AVZ Minerals. The key priority for the Board and Management during Financial Year 2018 was to unlock the lithium potential of the Manono asset and in this, I am pleased to report, we enjoyed great success.

Initially, this focused on the completion of a 20,000m resource drilling program prior to a resource estimation. That program was completed during the year and yielded what can only be described as spectacular intersections, some 200-300m thick.

The maiden JORC Mineral Resource Estimate announced after the close of the Financial Year confirmed Manono as the *largest hard rock spodumene deposit in the world*. And this Estimate only covered half of the Roche Dure pegmatite strike length and Roche Dure itself is one of 6 massive pegmatites at Manono. Clearly there is significant potential for resource growth at this property. China's Ministry of Land and Resources has recognised the unique qualities of Manono, describing it as the "Escondida of Lithium".

Having an enormous inventory of lithium in the ground however is not enough to make a great project. Manono favourably distinguishes itself on 2 other critical fronts:

Firstly, the grade - At 1.66% Li_2O Manono's grade is world class. It is also, in our analysis, the highest grade deposit owned by an ASX listed company. This has important implications for the projects economics and as per the Scoping Study we recently released, the mining and processing costs are estimated at a mere US$120/tn.

Secondly, the metallurgy - analysis of Manono ore indicates that it is very low in impurities. For example, Iron oxide, a potentially deleterious element, has been estimated at an average of 0.99% Fe_2O_3, which, when compared to other ASX-listed hard rock deposits, is one of the lowest reported. There is a strategic nature to quality deposits that are low in deleterious elements such as iron oxide, mica, phosphorous and fluorine as they are highly sought after by lithium converters. Independent observers believe that over time material from such deposits could ultimately command its own pricing mechanism, much like high-grade iron ore or high energy thermal coal. Such deposits are also of interest for blending with other lower grade ores.

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Managing Director: Nigel Ferguson
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Non-Executive Director: Rhett Brans
Non-Executive Director: Hongliang Chen
Non-Executive Director: Guy Loando

Issued Capital
1,888 M Ordinary Shares

Market Cap
$145 M

ASX Code: AVZ

Quality is only becoming more critical for our potential customers. Recent changes to subsidies for E.V.'s in China favouring higher energy density batteries are making this an imperative. The proposed battery change is believed to be coming through the electric car sector with the threshold for a government subsidy on new-energy vehicles being raised from 120-watt hours per kilogram (120Wh/kg) to 140Wh/kg from January 1, 2019. This change is expected to flow through the supply chain, as big battery makers look to secure supplies of battery metals from the biggest and most reliable suppliers with a focus on those able to meet strict quality guidelines.

As a recent report from Macquarie Bank highlighted: "Over time we expect the push for quality [to go] down the supply chain, favouring the miners which are best equipped to deliver it…In the long-term surety and consistency of supply will be critical. That means big resources are critical, not only in providing the longevity needed to support large, long-term, demand but also in providing miners with the ability to produce stable, high-quality material…"

There can be no doubting the quality of Manono. As the initial Scoping Study highlighted, thanks to the very low level of deleterious elements Manono is expected to produce a 5.8% or potentially higher lithium concentrate which receives a material premium above the standard 5% lithium concentrate price as it reduces the need for expensive processing to remove these impurities.

Turning briefly to the markets, shareholders will be well aware that lithium, once the commodity on everyone's lips, has had its issues lately. The metal enjoyed a long period of dramatic outperformance versus other commodities, appreciating over 300% from June 2015 to its more recent peak in November 2017. The lithium carbonate price started the 2017/18 Financial Year at US$17,000 tonne and quickly rallied to US$21,500 per tonne in October. Since that time, however it has been one-way traffic, declining to $17,750 at June 30, 2018. It has now dropped 32% from the peak to US$14,500 currently.

So what's happened?

In our view, what we have seen is the first significant supply response following the demand shock in 2015 when China effectively endorsed the EV revolution. The demand shock that led to a surge in prices which I described earlier had two clear impacts. Firstly, it dramatically boosted share prices of companies exposed to lithium and secondly it also incentivised producers and processors to build and expand capacity.

Whilst in recent years new capacity has suffered from start-up issues and production of the right grades of material have been a problem for some producers, the combination of significant profit margins and the passage of time mean many, but not all, have now acquired the expertise to produce the grades required. Also, given the ramp up in mine supply, more spodumene and DSO is now expected to be processed into battery grade lithium.

However, in our view, an optimistic outlook for prices is not difficult to envisage. The future growth of demand from EVs seems indisputable. The International Energy Agency's forecast, based on assessments of country targets, OEM announcements and scenarios on electric car deployment, is that the number of electric vehicles will range between 9 million and 20 million by 2020 and between 40 million and 70 million by 2025. UBS recently predicted that 1 in every 6 vehicles sold globally in 2025 would be an EV, and in Europe UBS believes it will be 1 in every 3!

Some forecasters see supply meeting this demand. In our view this analysis is simplistic. There are 2 countervailing factors that need to be remembered. Firstly, the industry has historically been a chronic under-deliverer when it comes to adding new capacity on time. If one looks at the actual supply delivered by the industry in 2017 versus the level of expected global capacity forecast 5 years ago for delivery in 2017 then the industry fell short by about 50%. A terrible result.

Secondly, nameplate capacity of built projects is one thing but actual output is another. One recent analysis highlighted that it generally takes about 4 years for a greenfield project to reach even 70% of nameplate. These two factors indicate to us that supply is likely to be overestimated.

In terms of our share price performance, as owners of about 70m shares, your Board more than empathises with shareholders' disappointment. An analysis of the equity market performance of junior lithium companies around the world by Metal Bulletin has highlighted the negative impact this price fall has had on this group in particular. Having outperformed producers and developers while lithium prices appreciated the juniors have been the hardest hit on the way down. AVZ has been no different. We don't see any fundamental reason why our share price has fallen more than others in our peer group except to suggest that having gone up 2500% since the beginning of 2017 that our shareholders may have been more aggressive taking some of their 'chips off the table'.

The share price aside, the company is in a strong financial state. Taking advantage of the exuberant equity market conditions which existed prior to the downturn in lithium prices, the Company prudently executed several equity raisings during FY18 for a total of $28m at prices ranging from 7c to 25c. This raising left the company extremely well capitalised to fund the high tempo of activity envisaged for 2018 and into 2019. At year end the company's cash balance was a healthy $16m and these funds have been applied to the Scoping Study, continued exploration and ultimately the Full Feasibility Study.

So what can shareholders expect to see from AVZ in the coming year? It should see a number of developments which the Board would reasonably expect to dramatically improve the fundamental valuation of the Company's Manono asset. I will focus on several of the most critical and value enhancing steps.

With the completion of the Scoping Study in October 2018, the Board decided to commence a Full Feasibility Study as soon as practicable. We expect that to commence in January 2019 and should be delivered to the market in around Q2 2019. This will provide a document with costs and NPV estimated to a much higher degree of certainty and provide the basis for the financing of the Project.

We also anticipate engaging further with potential offtakers. Through the year we announced several MoUs for investment and off-take with various Chinese groups. It is our intention to ultimately upgrade these MoUs to binding offtake agreements for the project's lithium concentrate production. Once signed, these agreements will be demonstrative of the lithium market's endorsement of the quality of the asset and its product. It will also be a critical milestone for debt providers in particular as we seek their support to finance the relatively modest capital expenditure of Manono.

Finally, we expect to lock in the logistics solution for the Project. This is an aspect of the Project's development which we believe is not well understood by the market. Due to its location transport of product from Manono to port is the single biggest cost, representing 63% of all opex as per the Scoping Study. We recently announced an optimised transport solution however, which saw a reduction in estimated transport costs by US$58/t. The Board anticipates potential further transport related cost savings as we progress negotiations with transport providers and will update the market in due course.

In closing then, on behalf of the Board I would like to thank the rest of the Executive team for their hard work during FY18. I would also like to thank both our employees for their dedication to the company, and our shareholders for their continued support. This year has been a rocky one as far as the company share price and the lithium price are concerned. However, it has been a year of genuine progress which has laid the foundations for an even bigger year ahead and one in which we will do our utmost to have Manono's true value appreciated by the market.

For further information, visit www.avzminerals.com.au or contact:

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