

ASX Announcement

6 July 2017



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ASX Compliance
Exchange Centre
20 Bridge Street
Sydney NSW 2000

Dear Isabella

Further Notice from Dawney & Co Pty Ltd

AWE Limited (ASX Code: AWE) refers to its announcement of 4 July 2017 advising AWE shareholders of the receipt of a further proposal ("Further Proposal") from Dawney & Co Pty Ltd ("Dawney").

AWE understands that the Further Proposal follows Dawney agreeing with the Australian Securities & Investments Commission ("ASIC") not to supply Dawney's previous proposal in its prior form to any AWE shareholder due to ASIC's concerns. Dawney has now withdrawn the previous proposal.

ASIC has advised AWE it continues to have concerns in relation to the Further Proposal. AWE understands that ASIC will take this up with Dawney.

Dawney claims that it, together with unidentified associates, currently has a relevant interest of 998,100 AWE shares, representing approximately 0.19% of total shares outstanding.

In summary, AWE believes that shareholders should ignore the Further Proposal set out in the 'offer document' from Dawney, and take no action in relation to it.

Overview of the Further Proposal

AWE has now reviewed the Further Proposal, and notes the following:

- The Further Proposal is not an 'offer' to acquire shares in AWE;
- Dawney is proposing that AWE shareholders grant Dawney a call option, pursuant to which the holder of the option would have the right, but not the obligation, to acquire their shares for A\$0.56 per share ("Option Agreements");
- Dawney has limited the maximum number of acceptances of this offer to up to a maximum of 19.99% of AWE shares outstanding with scaling down for over-acceptances;
- AWE shareholders will receive no payment from Dawney as consideration for entering into these Option Agreements;
- Dawney states that it intends as follows:



- not to exercise the option itself;
 - if Dawney secures a sufficient (but not disclosed) number of options from AWE shareholders, to sell the options to an unidentified third party, at any time during the period of 8.00am on 11 August 2017 until 5.00pm on 10 September 2017; and
 - if Dawney does not receive a sufficient number of options from AWE shareholders, Dawney will not exercise the options granted and let them lapse; and
- To the extent Dawney receives consideration from the unidentified third party for selling the Option Agreements, Dawney proposes to pay those AWE shareholders who enter into Option Agreements 95% of the Net Sale Proceeds that are received from the third party. The Net Sale Proceeds comprise the gross proceeds received by Dawney in consideration for the sale of the Option Agreements less any fees, commissions or legal expenses in relation to the sale.

AWE observations on the Further Proposal

After reviewing the Further Proposal, AWE has identified a number of issues for AWE shareholders, with most of these concerns existing under Dawney's previous and now withdrawn first proposal. Those concerns include:

- **No upfront consideration** - Despite customary practice, Dawney is not paying any upfront consideration to AWE shareholders in exchange for granting Dawney the call options under the proposed Option Agreements even though Dawney itself acknowledging that the call option has some value.
- **No certainty of future value** – There is no certainty as to whether the call options under the Option Agreements will be exercised. Dawney has stated that it intends to not exercise the options itself and intends to sell the options to a third party. However, as at 3 July 2017, Dawney has not identified any potential third party buyer of the options and Dawney has indicated that no assurance can be given that Dawney will be successful in identifying a third party buyer. If Dawney, or a third party buyer of the Option Agreements allows the Option Agreements to lapse, then AWE shareholders will receive no consideration at all under the Further Proposal. This is despite the letter from Dawney stating that its proposal provides AWE shareholders with 'certainty of value' for their shares.
- **Risk that AWE shareholders do not receive full value** – Dawney has indicated that it may sell (assign) the Option Agreements to an unidentified third party and 95% of the Net Sale Proceeds received will be shared with AWE shareholders who enter into Option Agreements. In this circumstance Dawney would be entitled to keep 5% of the proceeds received without having paid any upfront consideration to AWE shareholders. AWE notes that the Net Sales Proceeds available for sharing with AWE shareholders is reduced by potentially material legal and advisory fees that are not discussed in Dawney's 'offer document', other than to be described as "certain reasonable expenses".
- **Risk that AWE shareholders will be forced to buy shares on-market if option is exercised** – Dawney states that any AWE shareholder who enters into an Option Agreement will retain all of the disposal rights in respect of their shares until the exercise of the option. However, if a shareholder sells their shares, they are required in the event of exercise of the option to transfer the required number of shares on the settlement date to the option holder. What is not made clear is that if you enter into an Option Agreement and you subsequently sell your shares to someone else, you still have a contractual obligation to deliver the shares for sale on the settlement date. This means that you will effectively be forced to buy shares on-market in order to transfer them to the third party who has exercised the option. The price

you pay for those shares could be higher than the \$0.56 you receive from the option holder, and higher than the price you previously sold shares at. The risk lies with you, rather than Dawney or whichever third party to who Dawney sells the Option Agreements.

- **Unidentified third party's intentions** - Dawney has indicated that it has not identified any potential third party to whom Dawney would sell the Option Agreements and warns that no assurance can be given that Dawney will be successful in doing so. Dawney has stated that it intends to seek out third parties who are financially responsible; have the power and capacity to execute the sale; and are capable of exercising the Option Agreements. There is no certainty that any third party's subsequent actions would be in the best interests of all AWE shareholders.

In light of the above, AWE believes that shareholders should ignore the Further Proposal set out in the 'offer document' from Dawney, and take no action in relation to it.

Yours sincerely

Bruce Phillips
Chairman