

MinterEllison

30 November 2017

The Manager
Company Announcements Office
Australian Securities Exchange
Level 4, 20 Bridge Street
Sydney NSW 2000

Dear Sir/Madam

Non-binding indicative offer in relation to AWE Limited ACN 077 897 440 (AWE)

We act for China Energy Reserve and Chemical Group Australia Pty Ltd ACN 615 286 443 (CERCG).

This morning, AWE released an announcement to ASX setting out a summary of the terms of a non-binding indicative offer that it had received from CERCG in relation to a proposal to acquire 100% of the shares in AWE (NBIO). Attached to this letter is a complete copy of the NBIO provided by CERCG to AWE.

In the interests of a fully informed market, CERCG requests that ASX release the full terms of the NBIO to ASX's company announcements platform.

Yours faithfully
MINTER ELLISON



Contacts:
Bryn Davis T: +61 8 6189 7800 E: bryn.davis@minterellison.com
Alberto Colla T: 61 3 8608 2000 E: alberto.colla@minterellison.com
OUR REF: AXC BXD 1181578

Level 4 Allendale Square 77 St Georges Terrace Perth WA 6000
GPO Box 2550 Perth WA 6831 Australia
T +61 8 6189 7800 F +61 8 6189 7999 minterellison.com





28 November 2017

STRICTLY CONFIDENTIAL

The Chairman and Managing Director
AWE Limited
Level 16, 40 Mount Street
North Sydney NSW 2060

Attention: Mr Kenneth Williams, Chairman and Mr David Biggs, Managing Director

Dear Kenneth and David,

Introduction

We are pleased to table with you our interest in the acquisition of 100% of the shares in AWE Limited (**AWE**) by China Energy Reserve and Chemicals Group Co., Limited's subsidiary China Energy Reserve and Chemical Group Australia Pty Limited (**CERCG**) on the terms set out in this letter (**Indicative Proposal**).

Based on our previous discussions and this Indicative Proposal, we are seeking to work with you, your management team and your advisors, on a friendly basis, to agree and implement a transaction in a timely and confidential manner which minimises any disruption to AWE's business and ensures AWE shareholders receive an optimal outcome.

CERCG acknowledges the excellent work AWE has achieved focusing the company on domestic Australian gas. We particularly recognise the good work on the Waitsia Project. CERCG wishes to maintain the momentum for the development of Waitsia. We are concerned by the delay in a Final Investment Decision (**FID**), inability to secure acceptable gas sale contracts (**GSAs**) to support FID, redundancy of key technical staff and the expiry of Production Licences 1 and 2 (**L1 & L2**).

The announced Share Purchase Plan (**SPP**) closing on 14 December 2017 also impacts our thinking and timing. CERCG believes it is essential that a transaction can be agreed and announced quickly so that AWE's smaller shareholders can factor this into their decision whether to participate in the SPP prior to closure of the SPP.

CERCG has undertaken significant due diligence based solely on publicly available information. We believe there are only a limited number of issues that will impact a decision to proceed to any formal intention to acquire AWE and that could materially change our view on an attractive price that CERCG would offer, with all remaining due diligence matters likely to be only confirmatory in nature. The key matters are detailed on Annexure 1. We would expect that you could provide this information within 48 hours. CERCG does not need to engage external technical consultants as it has sufficient in-house expertise. CERCG is confident that provided it can receive the information outlined in Annexure 1, it can complete its confirmatory due diligence within seven (7) business days. For your convenience, accompanying this letter is a confidentiality agreement that would govern the proposed confirmatory due diligence process and so that AWE can rely on the confidential carve-out in relation to ASX Listing Rule 3.1.

Any formal offer is intended to be all cash, fully funded from existing cash reserves and facilities outside of mainland China, be free of any Chinese regulatory approvals and have Foreign Investment Review Board (**FIRB**) approval granted. Customary with deals of this nature, CERCG will be seeking a recommended transaction (in the absence of a superior proposal) with upfront key shareholder support and industry standard deal protection.

CERCG confirms that it wishes to retain the majority of your management and operational teams. With our plans we see meaningful jobs being generated and significant benefits for not only the Western Australian economy but also the East Coast of Australia. CERCG is acutely aware of the energy crisis facing the East Coast and believes it has the capabilities to assist in addressing the shortage of gas and associated elevated prices for energy. CERCG's business plans will also assist remote communities and mines, delivering affordable energy fuel (**LNG**) via its virtual pipeline business that is proven in China.

CERCG appreciates that value will be created as Waitsia is developed. Given the delay in FID and based on AWE's announced development timelines, we understand that Waitsia is unlikely to provide positive free cashflow until the backend of 2020, some three (3) years from now. CERCG has the ability to provide shareholders with a significant premium now that recognises that future value in a certain and quantified manner, without the risks of developing a project such as Waitsia. These risks include (and are not limited to) delays in FID, renewal of L1 & L2, obtaining GSAs that are acceptable (and do not erode value), environmental and native title approvals and compliance, working with joint venture partners who have significantly more financial strength and operational control of the relevant projects and of course financing risk in relation to AWE's substantial future expenditure commitments to develop Waitsia and to maintain its extensive exploration portfolio.

It is important that any price is fair to both parties. No one wants to be embarrassed. We genuinely request that you enter this process with the same goodwill that CERCG has demonstrated to you and your shareholders.

CERCG would like AWE to confidentially canvass this Indicative Proposal with AWE's two (2) largest shareholders, Ellerston Capital and Colonial First State, as their upfront support is a key factor in our Indicative Proposal.

CERCG understands that AWE has previously disclosed confidential upfront approaches such as that contained in this letter. CERCG requests that this does not happen until we have had the opportunity to access the information outlined in Annexure 1 and CERCG has formally decided whether or not to proceed. In the event that you do decide to publicly announce CERCG's interest in AWE, we ask that you give us the courtesy of informing CERCG prior to the public release. Prior to any public release or agreed transaction announcement, CERCG would also like AWE to consider disclosing the information confidentially to Mr Bruce Phillips. This is a matter of respect for CERCG. Mr Phillips is the founder of AWE and until very recently, the company's Chairman.

Background to CERCG

As you are aware, CERCG is an international and fully integrated energy company. CERCG invests in, develops, operates and manages oil and gas exploration projects, field developments, gas processing facilities, liquefied natural gas (**LNG**) production plants, gas and fuel storage, compressed natural gas (**CNG**) transportation and distributions and petrol chemicals. The business is involved in all three of the upstream, midstream and downstream oil and gas sectors.

CERCG was established in 1981 and has over 10,000 employees, with its head office located in Beijing and other offices located in Australia, Canada and Shanghai.

CERCG generates an annual turnover in excess of 40 billion RMB (c.US\$600 million) and has a strong balance sheet. In addition, CERCG has significant access to funding and less restrictive funding channels due to its scale and government owned status.

As at September 2017, CERCG:

- has built, owns and operates over 1,100km of major high pressure natural gas pipelines;
- owns and operates 300 LNG fuelled trucks for LNG transportation and distribution;
- owns and manages over 100 LNG and CNG filling stations in China; and
- has built, owns and maintains the networks for natural gas supply to over 50 large cities in China.

CERCG's credentials can be further demonstrated by its appointment as the exclusive LNG fuel supplier for the 2022 Winter Olympics in Beijing.

For further information on CERCG, please refer to: www.cercg.com

CERCG has recently decided to expand its international operations and is pursuing assets which meet its technical and quality criteria to provide the best value to its shareholders.

As you are aware, CERCG has for some time considered AWE, and in particular AWE's Waitsia asset, as an attractive opportunity and after reviewing recent developments in detail we now feel comfortable that AWE could satisfy our criteria and support our international business objectives.

CERCG's strategy in relation to AWE would be to accelerate the development of its assets, in particular Waitsia and, subject to market conditions including domestic demand, CERCG would seek to utilise its proprietary expertise in LNG and CNG processing, storage and transport to provide virtual gas pipeline and energy supply solutions across Australia. CERCG considers that remote mine sites, power plants and regional communities will benefit from its resources and technologies and is also cognisant of the potential opportunities to supply the Australian East Coast market with gas and LNG to alleviate the current gas crisis.

CERCG has high regard for the capabilities within AWE and therefore its strategy includes the retention of the majority of AWE's management and organisational capability post acquisition completion.

Indicative Proposal

CERCG is naturally keen to implement the transaction by the optimal mechanism and as such proposes to complete the transaction by way of either:

- 1) a friendly takeover bid by CERCG that is recommended by the Board of AWE; or
- 2) a scheme of arrangement between AWE and its shareholders.

Based solely on publicly available information, our key technical assumptions and the conditions required by CERCG as part of a friendly transaction, including Board recommendation and key shareholder support upfront, CERCG is pleased to confirm it would be prepared to make an all cash offer and pay an indicative price of \$0.71 per share for all of the issued shares in AWE.

We consider this indicative price provides a compelling opportunity for AWE shareholders to obtain an attractive valuation and certain premium for their AWE shares, with the indicative price delivering a:

- 1) 29.1% premium to AWE's closing share price on 28 November 2017;
- 2) 42.0% premium to the issue price of the \$38 million capital raising announced 15 November 2017;
- 3) 33.2% premium to the 30-day VWAP¹ of AWE up to 28 November 2017;
- 4) 42.3% premium to the 90-day VWAP of AWE up to 28 November 2017; and
- 5) 31.5% premium to the average broker share price target for AWE.

We refer you to Annexure 2 which more fully outlines the relevant premiums and qualifications. The average broker share price target excludes RBC's upgrade on 22 November as it is assumed not to be independent. CERCG notes that RBC acted as underwriter to the recent \$38 million capital raising. Clearly, therefore, research from this investment bank could not be considered independent. In addition, RBC's 150TJ/day production case for Waitsia is very optimistic considering AWE is yet to agree commercial GSAs for Waitsia's currently planned 100TJ/day production rate to date. As previously stated this indicative price is subject to certain conditions and focused confirmatory due diligence as outlined in Annexure 1.

¹ Volume Weighted Average Price (VWAP)

Note this proposal would extend to any other shares to be issued by AWE under the SPP or on vesting of the cash share rights currently on issue.

Based on total diluted shares of 633,733,548 (assuming all cash share rights are vested and converted into shares and including all shares to be issued in relation to the institutional capital raising and SPP² as announced 15 November 2017) this indicative price delivers AWE an equity valuation of \$450 million and, after taking into account AWE's net debt of \$16 million³ as at 16 November 2017, an enterprise value of \$466 million.

We believe this Indicative Proposal represents an extremely attractive and compelling opportunity for AWE's shareholders for the following reasons:

- 1) Provides attractive value;
- 2) Delivers significant premium to key price benchmarks;
- 3) Provides unambiguous all cash certainty;
- 4) Removes the uncertainty and risks to AWE shareholders in relation to Waitisia's development, timing and financing, including potential equity dilution; and
- 5) The Indicative Proposal is subject to limited conditions with straightforward regulatory approval and implementation pathway.

However, as mentioned above, the Indicative Proposal is subject to CERCG being granted the opportunity to undertake a short and focused confirmatory due diligence review of AWE's confidential information. This is necessary so that CERCG can confirm that key assumptions on which its Indicative Proposal is based, and so that it can offer the best price possible to AWE shareholders.

We are keen to progress this proposal quickly and believe an expedited timetable is desirable to:

- 1) ensure minimal disruption to AWE's business; and
- 2) facilitate the timely delivery of a formal proposal to your shareholders that we consider represents compelling value and is announced prior to the closing date of the SPP.

To this end, while CERCG is conducting its due diligence (which would be governed by the terms of a confidentiality agreement accompanying this Indicative Proposal), it is proposed that a transaction implementation agreement (**Implementation Agreement**) would be negotiated in parallel.

We can commence due diligence immediately and consider we could be in a position to execute the Implementation Agreement by **Friday, 8 December 2017** and then jointly announce the formal proposal to ASX immediately afterwards.

CERCG has appointed the following advisers to assist with this Indicative Proposal and potential transaction:

- 1) **Financial:** Argonaut
- 2) **Legal:** MinterEllison
- 3) **Accounting & Tax:** PwC

This letter does not represent a legally binding commitment by CERCG. Any such commitment would be subject to the completion of satisfactory due diligence and the entry into the Implementation Agreement (and any other ancillary definitive legal documentation). As you will appreciate, the execution of the

² A \$0.50 issue price and 100% take-up has been assumed for the SPP, being an issue of 20,000,000 shares.

³ Net debt estimate includes cash of \$17 million and drawn debt of \$81 million as at 30 September 2017 and proceeds from the \$38 million institutional capital raising and \$10 million SPP announced on 15 November 2017. This is only an estimate and is to be confirmed by AWE.

Implementation Agreement would require the approval of CERCG's Board. Therefore, this indicative proposal is incomplete and non-binding.

This proposal is strictly confidential and is provided to AWE on the basis that this letter and these discussions (including without limitation, the existence of this letter and any of the contents) will not be disclosed by AWE to any person other than its Board, senior management and advisers on a 'need to know' basis, unless CERCG has expressly agreed to such disclosure.

This non-disclosure requirement does not prevent any disclosure required by law or the listing rules of the ASX. Should AWE determine that it is required by law to disclose the existence of, or any details pertaining to CERCG's interest, CERCG would appreciate being consulted in advance regarding the terms of the disclosure and, in all of the circumstances, the CERCG's identity must not be disclosed without our prior agreement.

Conclusion

CERCG believes this Indicative Proposal represents an exciting and rewarding opportunity for AWE and its shareholders. We are confident that we can deliver an attractive outcome for all stakeholders, in a timely manner with limited execution risk or business interruption.

We look forward to advancing this proposal with you in a constructive, co-operative manner. Our desire is to engage collaboratively with you and AWE's business on what we believe is a compelling opportunity that will bring significant benefits to our respective companies, shareholders and other stakeholders.

We ask that AWE responds to this Indicative Proposal confirming its interest and ability to proceed as soon as possible, and in any event no later than **5:00pm (Perth Time) Friday, 1 December 2017**.

Please contact Kevin Gao of CERCG or Edward Rigg of Argonaut if you wish to discuss or require clarification of any aspect of this Indicative Proposal.

Kevin Gao

Business Manager
CERCG Australia
Office: +61 8 6214 3817
Mobile: +61 439 545 916
Email: kevin.gao@cercg.com.au

Edward G. Rigg

Deputy Chairman & Head of Corporate Finance
Argonaut
Office: +61 8 9224 6804
Mobile: +61 418 942 304
Email: erigg@argonaut.com

Yours sincerely



Liping Xuan

Managing Director
CERCG Australia

Annexure 1: Priority Due Diligence Items

#	Due Diligence Item	Due Diligence Action
1	Waitsia Petroleum Licences Renewal for L1 & L2 that expired in May 2014	<ul style="list-style-type: none"> • Please confirm the status of the renewal of these licences, the terms of any such renewals and provide us with any relevant documentation relating to the renewals. • L1 & L2 expired over 3 years ago and it is unclear to CERCG if this is due to native title, environmental or government changes to terms and conditions, and as such CERCG does not intend to proceed unless it is comfortable that L1 & L2 will be renewed on terms not materially worse than the terms of the expired L1 & L2.
2	Waitsia Reserves & Resources	<ul style="list-style-type: none"> • Review of AWE's Reservoir Simulation (Petrel) Model, updated seismic studies, the RISC Independent Reserve & Resource and AWE's internal Reserve & Resource Estimate
3	Gas Pricing	<ul style="list-style-type: none"> • Review of recent term sheets for GSAs (West Coast and East Coast)
4	Tax Losses, Tax Cost Base & Carry Forward Petroleum Resource Rent Tax (PRRT) Balances	<ul style="list-style-type: none"> • Review of Financial Accounts and Tax Returns
5	Waitsia Development Timing and Capital Expenditure	<ul style="list-style-type: none"> • Review of the Waitsia Stage 2 facilities design competition and FEED proposals
6	Bass Gas Field	<ul style="list-style-type: none"> • Review of internal Bas Gas assumptions for field life, development of Trefoil, capital requirements, abandonment capex and production
7	Financial Health	<ul style="list-style-type: none"> • Confirmation of cash and debt balances • Review of management accounts and budgets to 30 June 2018 • Review of bank facility agreement and refinancing communications • Review of environmental rehabilitation liabilities • Review of any Ande Ande Lumut carry settlement with Santos and • Confirmation of no litigation or threatened litigation
8	Monthly Operator Reports	<ul style="list-style-type: none"> • Review of Monthly Operator Reports for Waitsia, Bass Gas, Casino, and Ande Ande Lumut for the last 6 months
9	Other	<ul style="list-style-type: none"> • Confirmation there is no other material information which has an adverse impact on AWE and confirmation there is no other material matter which AWE has not publicly disclosed due to a confidentiality carve-out

Annexure 2: Key Price Benchmarks

Figure 1: Implied Premiums to Key Price Benchmarks

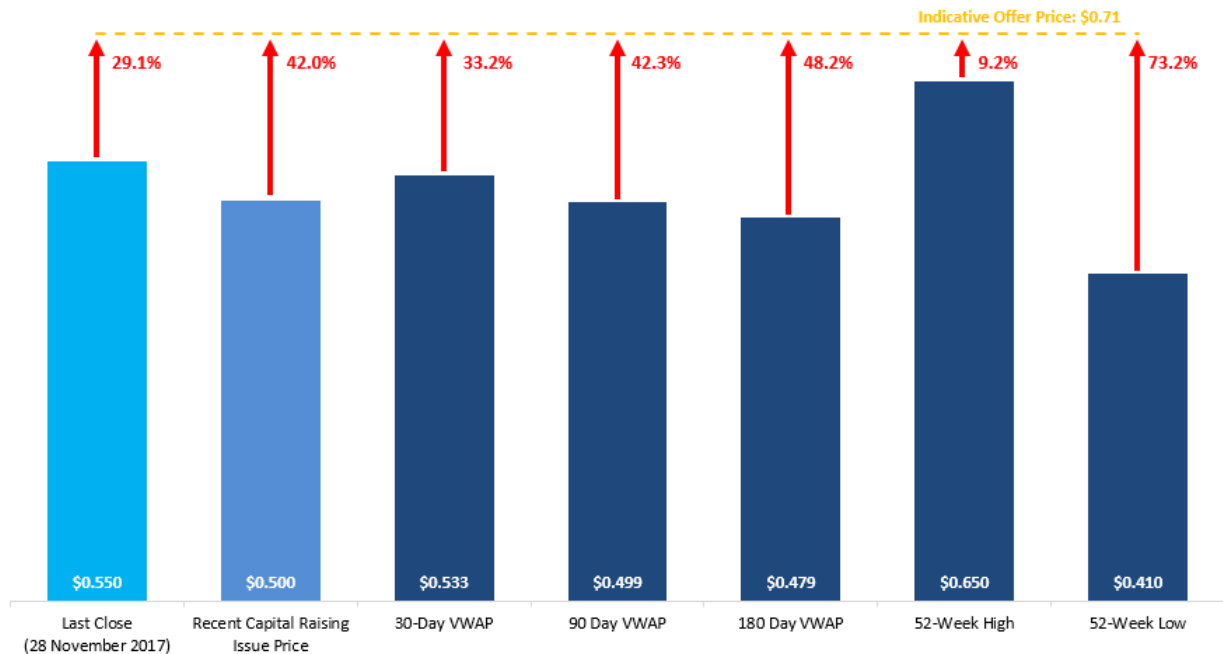
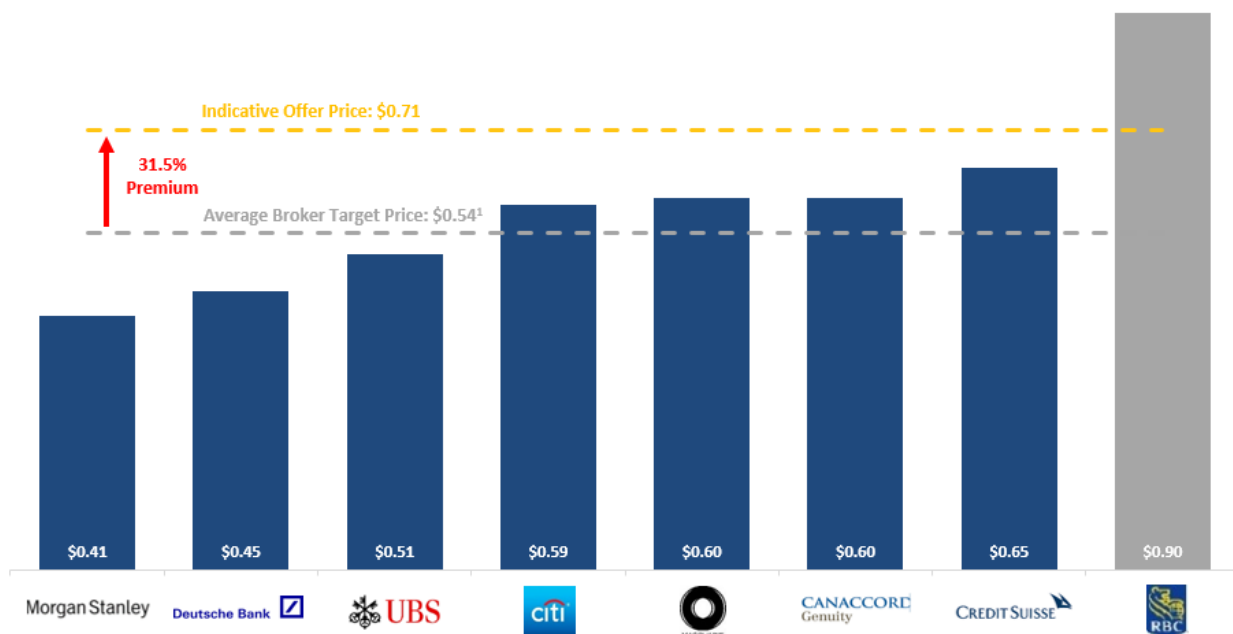


Figure 2: Implied Premium to Broker Target Price Average



Note: The broker target price average of \$0.54 excludes RBC as the “independence” of their research is questionable given their role as Lead Manager and Underwriter to AWE’s recent capital raising at \$0.50 per share.