

29th March 2016

Dear Fellow Investor,

Re: Letter to NACO Holders: Information and Instructions on Exercising or Selling your Options

Shareholders who participated in the IPO process for the NAOS Absolute Opportunities Company Limited (ASX:NAC) in November 2014 received a 1 for 1 free attaching option. If you choose to exercise an option, you will receive a NAC share. These options are trading on the ASX under the code NACO.

This letter seeks to provide you with specific information about how to exercise or sell your options prior to their expiry date (30 November 2016).

The NAOS Absolute Opportunities Company has returned over 23%* since its November 2014 inception whilst maintaining a focus on preserving shareholders capital.

Exercising your Options

For every option you exercise you will receive a share in the NAOS Absolute Opportunities Company Limited (ASX: NAC). The cost to exercise each option is \$1.00, by exercising options at the strike price of \$1.00 you will also be purchasing NAC shares at a **discount to the Net Tangible Asset value of \$1.13 per share** (undiluted for the exercise of all NACO options, as at 29 February 2016 on a pre-tax basis).

If you exercise your options and purchase NAC shares prior to **19 April 2016** you will be entitled to receive the first half FY16 dividend for the Company of \$0.0225 per share (fully franked) as well as all future dividend streams that NAC declares.

If you wish to exercise your options please read and complete the attached form and follow the instructions on how to send it back to the specified mailing address.

Payment for the exercise of your options to shares can be finalised via BPAY or EFT. The payment details can be found on the next page of this correspondence.

Selling your Options

NACO are listed securities and therefore can be bought and sold on the Australian Stock Exchange (ASX) in the same way as any other listed security. As at 16 March 2016, the market value of NACO is **\$0.01** per option.

If you would like any assistance to sell your options on the ASX please contact a member of the NAOS team; we will be more than pleased to assist you in this process.

Importantly, if you choose to neither exercise nor sell your options prior to their expiry date they will be worthless.

If you require any assistance with the above or if you would like further information about your option holding please contact a member of the NAOS team; enquiries@naos.com.au or telephone: +612 9002 1576.

Yours Sincerely,

NAOS Asset Management Limited

* Investment portfolio performance is post all operating expenses, before fees and taxes.

Application for Shares on Exercise of Options

Option exercisable at A\$1.00 expiring at 5.00pm (Sydney Time) on 30 November 2016 ("Option")

Number of Options
Registered in your name:

To be completed by Optionholder:

Number of Options being exercised:	Multiplied by the exercise price of A\$1.00	Amount Paid:
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Payment may only be made by BPAY or cheque. Cash will not be accepted via the mail or at the Naos Absolute Opportunities Company Limited Share Registry.

Payments cannot be made at any bank. Please tick the relevant box below to confirm your method of payment.

Payment option 1 – BPAY ☐ (tick the relevant box)



Biller Code:

Ref:

Telephone & Internet Banking - BPAY®

Contact your bank, credit union or building society to make this payment from your cheque or savings account.

More info: www.bpay.com.au

© Registered to BPAY Ltd ABN 69 079 137 518

- If paying by BPAY you must still return this exercise notice with your signature(s) below
- The amount of your payment received in the account divided by the exercise price will be deemed to be the total number of options you are exercising

Payment Option 2 – Electronic Funds Transfer

Bank: NAB
BSB: 082057
Account Number: 837409828
Account Name: NAOS Absolute Opportunities Co Ltd
Reference:

- If paying by Electronic Funds Transfer you must still return this exercise notice with your signature(s) below

Payment option 3 – Cheque (Record cheque details below) ☐ (tick the relevant box)

DRAWER	CHEQUE NO.	BSB NO.	ACCOUNT NO.	AMOUNT \$AUD
				\$

- Only cheques or bank drafts in Australian dollars and drawn on a bank or financial institution in Australia will be accepted.
- Your cheque or bank draft must be made payable to "Naos Absolute Opportunities Company Limited" and crossed Not Negotiable and should be attached to this form.
- The amount of your payment received in the account divided by the exercise price will be deemed to be the total number of options you are exercising

To the Directors

Naos Absolute Opportunities Company Limited ('Company')

I/We being the registered holders of Options each to acquire one Fully Paid Ordinary Share in the Company hereby give notice of the exercise of Options and attach hereto my/our cheque payable to "NAOS ABSOLUTE OPPORTUNITIES COMPANY LIMITED" in payment of such exercise.

I/We agree to my/our name/s being placed on the Register of Members in respect to the number of shares in the Company allotted and to be bound by the Constitution of the Company.

Please sign here:

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director & Company Secretary

Director

Director / Company Secretary

Telephone No. (Business Hours)

()

Date

Lodgement of Application

Naos Absolute Opportunities Company Limited C/- Boardroom Pty Limited, GPO Box 3993, SYDNEY NSW 2001

Neither Boardroom Pty Limited nor the Company accepts any responsibility if you lodge this Application at any other address or by any other means.

TERMS OF OPTIONS

Naos Absolute Opportunities Company Limited

Register

The Company will maintain a register of holders of Options in accordance with Section 168(1)(b) of the Corporations Act.

Transfer/Transmission

An Option may be transferred or transmitted in any manner approved by the ASX.

Exercise

An Option may be exercised by delivery to the Company of a duly completed Notice of Exercise of Options, signed by the registered holder of the Option, together with payment to the Company of \$1.00 per Option being exercised and the relevant option certificate.

An Option may be exercised on any business day from the date of grant to 30 November 2016, (inclusive) but not thereafter.

A Notice of Exercise of Options is only effective when the Company has received the full amount of the exercise price in cash or cleared funds.

Dividend entitlement

Options do not carry any dividend entitlement until they are exercised. Shares issued on exercise of Options rank equally with other issued Shares of the Company 7 Business Days after their date of issue and are entitled to dividends paid on and from this date.

Participating rights

For determining entitlements to the issue, an Option holder may only participate in new issues of securities to holders of Shares in the Company if the Option has been exercised and Shares allotted in respect of the Option before the record date. The Company must give at least 6 Business Days' notice to Option holders of any new issue before the record date for determining entitlements to the issue in accordance with the Listing Rules of the ASX.

If between the date of issue and the date of exercise of an Option the Company makes 1 or more rights issues (being a pro rata issue of Shares in the capital of the Company that is not a bonus issue), the exercise price of Options on issue will be reduced in respect of each rights issue according to the following formula:

$$NE = OE - \frac{E[P-(S + D)]}{(N + 1)}$$

where:

NE is the new exercise price of the Option;

OE is the old exercise price of the Option;

E is the number of underlying Shares into which one Option is exercisable;

P is the average closing sale price per Share (weighted by reference to volume) during the 5 trading days ending on the day before the ex rights date or ex entitlements date (excluding special crossings and overnight sales);

S is the subscription price for a Share under the rights issue;

D is the dividend due but not yet paid on each Share at the relevant time; and

N is the number of Shares that must be held to entitle holders to receive a new Share in the rights issue.

If there is a bonus issue to the holders of Shares in the capital of the Company, the number of Shares over which the Option is exercisable will be increased by the number of Shares which the holder of the Option would have received if the Option had been exercised before the record date for the bonus issue.

Reconstructions and alteration of capital

Any adjustment to the number of outstanding Options and the exercise price under a reorganisation of the Company's share capital must be made in accordance with the Listing Rules.

ASX Listing

The Company must make application for quotation of Shares issued on exercise of the Options on the ASX in accordance with the Listing Rules. Shares so issued will rank equally with other issued Shares of the Company.