

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

**It sets out the resolutions to be proposed at a General Meeting of Velocys plc to be held at 10.00 a.m. on 31 January 2018. If you are in any doubt about the contents of this document or the action you should take you should immediately consult an independent adviser authorised under the Financial Services and Markets Act 2000 (as amended) who specialises in advising on the acquisition of shares and other securities before taking any action. The whole of this document and any accompanying documents should be read.**

If you have sold or otherwise transferred all of your Ordinary Shares on or before the Ex-Entitlement Date, please send this document, together with the accompanying documents, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee. However, such documents should not be forwarded to, or transmitted in or into, any jurisdiction outside of the UK. Any failure to comply with such restriction may constitute a violation of the securities laws of any such jurisdiction. If you have sold only part of your holding of Ordinary Shares, please contact your stockbroker, bank or other agent through whom the sale or transfer was effected immediately. If you have sold or transferred only part of your registered holding of Ordinary Shares on or before the Ex-Entitlement Date, you are advised to consult your stockbroker, bank or other agent through whom the sale or transfer was effected.

The total consideration under the Open Offer shall be less than €5 million (or an equivalent amount) in aggregate. Neither the Firm Placing nor the Placing and Open Offer constitute an offer to the public requiring an approved prospectus under section 85 of FSMA and accordingly this document does not comprise a prospectus in accordance with the Prospectus Rules and has not been drawn up in accordance with the Prospectus Rules. This document has not been approved by the Financial Conduct Authority or by any other authority in any jurisdiction.

The Company's Ordinary Shares are currently admitted to trading on AIM. Applications will be made to the London Stock Exchange for the New Ordinary Shares to be admitted to trading on AIM. Subject to the passing of the Resolutions, it is expected that Admission will become effective, and dealings for normal settlement in the New Ordinary Shares will commence, at 8.00 a.m. on 1 February 2018. The New Ordinary Shares will not be admitted to trading on any other investment exchange.

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## **VELOCYS PLC**

*(Incorporated and registered in England and Wales with registered no. 5712187)*



**Firm Placing of 139,605,000 New Ordinary Shares at a price of 10 pence per share  
Placing and Open Offer of 44,057,946 New Ordinary Shares at a price of  
10 pence per share**

### **Notice of General Meeting**

*Nominated adviser and joint broker*

**Numis Securities Limited**

*Joint broker*

**Canaccord Genuity Limited**

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**This document should be read in conjunction with the accompanying Form of Proxy, the Notice of General Meeting set out at the end of this document and, if you are an Eligible non-CREST Shareholder, the accompanying Application Form. You are recommended to read the whole of this document but your attention is drawn to the letter from the Chairman of the Company to Shareholders which is set out on pages 12 to 22 of this document. This letter explains the background to, and reasons for, the Capital Raising and contains a recommendation that you vote in favour of the Resolutions to be proposed at the General Meeting.**

The notice of a General Meeting to be held at 10.00 a.m. on 31 January 2018 at the offices of Mayer Brown International LLP, 201 Bishopsgate, London EC2M 3AF is set out on pages 45 to 46 of this document. The accompanying Form of Proxy for use in connection with the General Meeting should be completed by Shareholders and returned as soon as possible but, in any event, so as to be received by the Company's registrars, Link Asset Services, PXS1 34 Beckenham Road, Beckenham, Kent BR3 4ZF no later than 48 hours before the time appointed for the General Meeting or adjourned meeting or, in the case of a poll taken otherwise than at or on the same day as the General Meeting or adjourned meeting, not later than 48 hours before the time appointed for the taking of the poll at the meeting at which it is to be used. **Whether or not you intend to be present at the General Meeting you are requested to complete and return the Form of Proxy as instructed above. Completion and return of a Form of Proxy will not preclude Shareholders from attending and voting at the General Meeting should they so wish.**

The Open Offer closes at 11.00 a.m. on 30 January 2018. If you are an Eligible Shareholder and wish to apply for Open Offer Shares under the Open Offer you should follow the procedure set out in Part III (*Terms and Conditions of the Open Offer*) of this document and, if you are an Eligible non-CREST Shareholder, complete and return the accompanying Application Form. Eligible CREST Shareholders (who will not receive an Application Form) will receive instead a credit to their appropriate stock accounts in CREST in respect of their Open Offer Entitlements which will be enabled for settlement on 1 February 2018. If you do not wish to participate in the Open Offer then you should not return your Application Form or send a USE instruction through CREST. Applications under the Open Offer may only be made by the Eligible Shareholders originally entitled thereto or by persons becoming so entitled, by virtue of a *bona fide* market claim arising out of the sale or transfer of Existing Ordinary Shares prior to the Ex-Entitlement Date.

The New Ordinary Shares will, following allotment, rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive all dividends and other distributions declared made or paid on the Ordinary Share capital of the Company.

**This document is being sent to all Shareholders, but in relation to those Shareholders who are not Eligible Shareholders (which means any Shareholders resident outside of the United Kingdom) it is being sent to them for information purposes only to enable them to exercise their rights as shareholders vis-à-vis the General Meeting to be held.**

This document does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy shares to any person in any jurisdiction to whom or in which such offer or solicitation is unlawful. The Existing Ordinary Shares and the New Ordinary Shares have not been, and

will not be, registered under the United States Securities Act of 1933, as amended, or under the securities legislation of any state of the United States. The relevant clearances have not been, and will not be, obtained from the Securities Commission of any province or territory of Canada; no document in relation to the Capital Raising has been, or will be, lodged with, or registered by, the Australian Securities and Investments Commission; and no registration statement has been, or will be, filed with the Japanese Ministry of Finance in relation to the Capital Raising. The New Ordinary Shares may not, directly or indirectly, be offered or sold within any territory other than the United Kingdom or offered or sold to a person within any territory other than the United Kingdom. Any failure to comply with these restrictions may constitute a violation of the securities law of any jurisdiction. Persons (including, without limitation, nominees and trustees) receiving this document and/or an Application Form should not, in connection with the Open Offer, distribute or send this document or Application Form into any jurisdiction when to do so would, or might contravene local securities laws or regulations or be contrary to the terms and conditions of the Open Offer.

Numis Securities Limited, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting as nominated adviser and joint broker to the Company for the purposes of the AIM Rules. Numis is acting exclusively for the Company and no one else in connection with the contents of this document and will not be responsible to any other person for providing the protections afforded to its customers nor for providing advice in relation to the contents of this document or any other matter referred to herein.

Canaccord Genuity Limited, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority and is a member of the London Stock Exchange, is acting as joint broker to the Company for the purposes of the AIM Rules. Canaccord is acting exclusively for the Company and no one else in connection with the contents of this document and will not be responsible to any other person for providing the protections afforded to its customers nor for providing advice in relation to the contents of this document or any other matter referred to herein.

Neither Numis nor Canaccord has authorised the contents of this document for any purpose and, without limiting the statutory rights of any person to whom this document is issued, no representation or warranty, express or implied, is made by Numis or Canaccord as to any of the contents or the completeness of this document.

In accordance with the AIM Rules, this document will be available to Shareholders on the Company's website ([www.velocys.com](http://www.velocys.com)) from the date of this document, free of charge.

#### **FORWARD-LOOKING STATEMENTS**

This document includes "forward-looking statements" which includes all statements other than statements of historical fact, including, without limitation, those regarding the Company's financial position, business strategy, plans and objectives of management for future operations, or any statements preceded by, followed by or that include the words "targets", "believes", "expects", "aims", "intends", "will", "may", "anticipates", "would", "could" or similar expressions or negatives thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company's control that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. These forward-looking statements speak only as at the date of this document. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based unless required to do so by applicable law or the AIM Rules.

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## **EXPECTED TIMETABLE OF PRINCIPAL EVENTS CAPITAL RAISING**

Record Date for the Open Offer	5.00 p.m. on 11 January 2018
Publication and posting of Circular, Application Form and Form of Proxy	15 January 2018
Ex-Entitlement Date	15 January 2018
Basic Entitlements and Excess Entitlements credited to stock accounts in CREST for Eligible CREST Shareholders	16 January 2018
Latest recommended time and date for requested withdrawal of Basic Entitlements and Excess Entitlements from CREST	4.30 p.m. on 24 January 2018
Latest time and date for depositing Basic Entitlements and Excess Entitlements into CREST	3.00 p.m. on 25 January 2018
Latest time for splitting Application Forms (to satisfy <i>bona fide</i> market claims only)	3.00 p.m. on 26 January 2018
Last time and date for receipt of Form of Proxy	10.00 a.m. on 29 January 2018
Latest time and date for receipt of Application Form and payment in full under the Open Offer or settlement of relevant CREST instructions (as appropriate)	11.00 a.m. on 30 January 2018
General Meeting	10.00 a.m. on 31 January 2018
Announcement of results of General Meeting	31 January 2018
Announcement of the results of the Capital Raising	31 January 2018
Admission and dealings in the New Ordinary Shares to commence on AIM	1 February 2018
CREST accounts credited with New Ordinary Shares	1 February 2018
Definitive share certificates for the New Ordinary Shares to be dispatched (if required)	8 February 2018

*If any of the details contained in the timetable above should change, the revised time and dates will be notified to Shareholders by means of a Regulatory Information Service (as defined in the AIM Rules). All events listed in the above timetable following the General Meeting are conditional on the passing of the Resolutions at the General Meeting and assume that the General Meeting is not adjourned.*

*In this document, all references to times and dates are to those observed in London, United Kingdom.*

## SHARE CAPITAL AND CAPITAL RAISING STATISTICS

Number of Existing Ordinary Shares	146,859,819
Number of Firm Placing Shares issued under the Firm Placing	139,605,000
Number of Open Offer Shares available under the Placing and Open Offer	44,057,946
Placing Price of Firm Placing Shares and Open Offer Shares	10 pence
Approximate percentage of the Enlarged Share Capital represented by the Firm Placing Shares*	42.2 per cent.
Approximate percentage of the Enlarged Share Capital represented by the Open Offer Shares*	13.3 per cent.
Number of Ordinary Shares in issue immediately following Admission*	330,522,765
Gross proceeds of the Firm Placing	£13,960,500
Gross proceeds of the Placing and Open Offer	£44,057,946
ISIN of the Ordinary Shares	GB00B11SZ269
ISIN of the Basic Entitlement Shares	GB00BFNX4971
ISIN of the Excess Entitlement Shares	GB00BFNX4B95

\* Information given in relation to the ordinary share capital of the Company and the proceeds of the Capital Raising immediately following Admission have been calculated on the basis that the Firm Placing is fully subscribed and comprises 139,605,000 Firm Placing Shares at a price of 10 pence per share, raising £13,960,500 (before expenses), that all Open Offer Shares are subscribed for by Eligible Shareholders or Henderson and Lansdowne (as applicable), and that no options, warrants or convertible loan notes are exercised.

## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	Dr Pierre Jungels, CBE, <i>Chairman</i> David Pummell, <i>Chief Executive Officer</i> Dr Paul Schubert, <i>Chief Operating Officer</i> Julian West, <i>Senior Non-executive Director</i> Andrew Morris, <i>Non-executive Director</i> Sandy Shaw, <i>Non-executive Director</i>
<b>Registered and Head Office</b>	Harwell Innovation Centre 173 Curie Avenue Harwell Oxfordshire OX11 0QG
<b>Company Secretary</b>	Jeremy Gorman
<b>Nominated Adviser and Joint Broker to the Company</b>	Numis Securities Limited The LSE Building 10 Paternoster Square London EC4M 7LT
<b>Joint Broker to the Company</b>	Canaccord Genuity Limited 88 Wood Street London EC2V 7QR
<b>Auditors</b>	PricewaterhouseCoopers LLP One Reading Central 23 Forbury Road Reading RG1 3JH
<b>Solicitors to the Company in respect of the Placing and Open Offer</b>	Mayer Brown International LLP 201 Bishopsgate London EC2M 3AF
<b>Solicitors to the Nominated Adviser and Joint Brokers</b>	Dorsey & Whitney (Europe) LLP 199 Bishopsgate London EC2M 3UT
<b>AIM Registrar</b>	Link Market Services Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
<b>Receiving Agent</b>	Link Asset Services Corporate Actions The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

## DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise.

“Act”	the UK Companies Act 2006, as amended
“Admission”	admission of the New Ordinary Shares to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules
“AIM”	the market of that name operated by London Stock Exchange plc
“AIM Rules”	the AIM Rules for Companies published by the London Stock Exchange as they may be amended and replaced from time to time
“Application Form”	the non-CREST application form relating to the Open Offer and enclosed with this document for use by Eligible non-CREST Shareholders
“Articles”	the articles of association of the Company (as amended from time to time)
“Basic Entitlement”	entitlement to subscribe for Open Offer Shares, allocated to an Eligible Shareholder pursuant to the Open Offer on the Record Date as described in Part III ( <i>Terms and Conditions of the Open Offer</i> ) of this document
“Board” or “Directors”	the board of directors of the Company, whose names are listed on page 6 of this document
“Canaccord”	Canaccord Genuity Limited, a company incorporated in England and Wales, with registered number 01774003, whose registered office is at 88 Wood Street, London EC2V 7QR
“Capital Raising”	the Firm Placing and the Placing and Open Offer
“Closing Date”	the date on which the Open Offer will close, being 11.00 a.m. on 30 January 2018 or such later time and date as the Company and Joint Brokers may agree
“Company” or “Velocys”	Velocys plc, a public limited company incorporated in England & Wales under registered number 05712187 and having its registered office at Harwell Innovation Centre, 173 Curie Avenue, Harwell, Oxfordshire, England, OX11 0QG
“CREST”	the relevant system (as defined in the Regulations) which enables title to units of relevant securities (as defined in the Regulations) to be evidenced and transferred without a written instrument and in respect of which Euroclear UK & Ireland Limited is the Operator (as defined in the Regulations)
“Eligible CREST Shareholders”	Eligible Shareholders whose Existing Ordinary Shares are held in uncertificated form in a CREST account
“Eligible Non-CREST Shareholders”	Eligible Shareholders whose Existing Ordinary Shares are held in certificated form
“Eligible Shareholders”	Shareholders on the Ex-Entitlement Date that are not resident in a Restricted Jurisdiction

<b>“Enlarged Share Capital”</b>	the issued Ordinary Share capital of the Company immediately following Admission comprising the Existing Ordinary Shares and the New Ordinary Shares assuming no exercise of any warrants or options
<b>“ENVIA”</b>	ENVIA Energy, LLC, a joint venture between Waste Management Inc, Ventech Projects Investments LLC and the Company
<b>“Ervington”</b>	Ervington Investments Limited
<b>“Ex-Entitlement Date”</b>	the date on which the Ordinary Shares are marked ‘ex’ for entitlement by the London Stock Exchange under the Open Offer, being 15 January 2018
<b>“Excess Entitlement”</b>	Open Offer Shares in excess of the Basic Entitlement, but not in excess of the total number of Open Offer Shares, allocated to an Eligible Shareholder pursuant to the Open Offer as described in Part III ( <i>Terms and Conditions of the Open Offer</i> ) of this document
<b>“Executive Committee”</b>	the executive committee of the Company, comprising David Pummell (Chief Executive Officer), Dr Paul Schubert (Chief Operating Officer), John Tunison (Interim Chief Financial Officer) and Henrik Wareborn (Interim Chief Commercial Officer)
<b>“Existing Ordinary Shares”</b>	the 146,859,819 Ordinary Shares in issue as at the date of this document being the entire issued share capital of the Company prior to the Capital Raising
<b>“Firm Placing”</b>	the placing of the Firm Placing Shares at the Placing Price by Numis, Canaccord and the Other Brokers as agents for and on behalf of the Company pursuant to the terms of the Placing Agreements
<b>“Firm Placing Shares”</b>	139,605,000 new Ordinary Shares to be issued in connection with the Firm Placing
<b>“Form of Proxy”</b>	the accompanying form of proxy for use by Shareholders in relation to the General Meeting
<b>“FSMA”</b>	the Financial Services and Markets Act 2000 (as amended)
<b>“General Meeting”</b>	the general meeting of the Company to be held at 10.00 a.m. on 31 January 2018, notice of which is set out at the end of this document
<b>“Henderson”</b>	Janus Henderson Investors
<b>“Joint Broker Placing Agreement”</b>	the conditional agreement dated 15 January 2018 relating to the Capital Raising, between the Company, Numis and Canaccord
<b>“Joint Brokers”</b>	Numis and Canaccord
<b>“Lansdowne”</b>	Lansdowne Partners (UK) LLP of 15 Davies Street, London, W1K 3AG
<b>“London Stock Exchange”</b>	London Stock Exchange plc
<b>“Link Asset Services”</b>	a trading name of Link Market Services Limited
<b>“New Ordinary Shares”</b>	the Firm Placing Shares and the Open Offer Shares



<b>“Notice of General Meeting”</b>	the notice of General Meeting, set out at the end of this document
<b>“Numis”</b>	Numis Securities Limited, a private limited company incorporated in England & Wales under registered number 2285918 and having its registered office at 10 Paternoster Square, London EC4M 7LT
<b>“Official List”</b>	the Official List of the UKLA
<b>“Open Offer”</b>	the offer to Eligible Shareholders, constituting an invitation to apply for the Open Offer Shares at the Placing Price on the terms and subject to the conditions set out in this document and, in the case of Eligible Non-CREST Shareholders, in the Application Form
<b>“Open Offer Entitlements”</b>	entitlements to subscribe for Open Offer Shares pursuant to the Basic Entitlement and Excess Entitlement
<b>“Open Offer Shares”</b>	44,057,946 new Ordinary Shares to be issued in connection with the Placing and Open Offer
<b>“Ordinary Shares”</b>	ordinary shares of 1 penny each in the capital of the Company
<b>“Other Brokers”</b>	MC Peat & Co LLP, Turner Pope Investments (TPI) Limited and Capital Access Group Limited
<b>“Overseas Shareholders”</b>	holders of Ordinary Shares who are resident in, or citizens of, countries outside of the UK
<b>“Placing”</b>	the conditional placing of 44,057,946 new Ordinary Shares with Henderson and Lansdowne, subject to clawback to satisfy valid acceptances by Eligible Shareholders under the Open Offer
<b>“Placing Agreements”</b>	the Joint Broker Placing Agreement and the other conditional agreements relating to the Firm Placing between the Company and each of the Other Brokers
<b>“Placing Letters”</b>	the letters between Numis and each of Henderson and Lansdowne relating to the Placing
<b>“Placing Price”</b>	10 pence per New Ordinary Share
<b>“Receiving Agent”</b>	Link Asset Services, a trading name of Link Market Services Limited
<b>“Record Date”</b>	5.00 p.m. on 11 January 2018, being the record date for the Open Offer
<b>“Registrar”</b>	Link Market Services Limited, a private limited company incorporated in England & Wales under registered number 02605568 and having its registered office at The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU
<b>“Regulations”</b>	the UK Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended
<b>“Resolutions”</b>	the resolutions to be proposed at the General Meeting as set out in the Notice of General Meeting
<b>“Restricted Jurisdiction”</b>	any jurisdiction except the UK. Jurisdictions outside the UK include, but are not limited, to the United States, Canada, Australia, New Zealand, the Republic of South Africa and Japan

<b>“Shareholders”</b>	the holders of Ordinary Shares from time to time, each individually being a “Shareholder”
<b>“SMBC”</b>	Sumitomo Mitsui Banking Corporation
<b>“UK” or “United Kingdom”</b>	the United Kingdom of Great Britain and Northern Ireland
<b>“US” or “United States”</b>	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
<b>“\$”</b>	the lawful currency of the United States
<b>“£”</b>	the lawful currency of the United Kingdom

## GLOSSARY

The terms set out below have the following meanings throughout this document, unless the context requires otherwise.

<b>“EPC”</b>	engineer, procurement and construction
<b>“FEED”</b>	front end engineering design
<b>“FID”</b>	final investment decision
<b>“IRR”</b>	interest rate of return
<b>“NPV”</b>	net present value
<b>“Renewable Identification Number” or “RIN”</b>	a renewable identification number assigned to a batch of biofuel to track its production, use and trading as required by the Renewable Fuel Standard
<b>“Renewable Transport Fuel Obligation”</b>	the Renewable Transport Fuel Obligation Order published 5 November 2012

## PART I

### LETTER FROM THE CHAIRMAN OF VELOCYS PLC

Harwell Innovation Centre  
173 Curie Avenue  
Harwell  
Oxfordshire  
OX11 0QG

*Directors:*

Company number: 5712187

Dr Pierre Jungels, CBE, *Chairman*  
David Pummell, *Chief Executive Officer*  
Dr Paul Schubert, *Chief Operating Officer*  
Julian West, *Senior Non-executive Director*  
Andrew Morris, *Non-executive Director*  
Sandy Shaw, *Non-executive Director*

15 January 2018

Dear Shareholders

**Placing of 139,605,000 new Ordinary Shares at a price of 10 pence per share**  
**Open Offer of 44,057,946 new Ordinary Shares at a price of 10 pence per share**  
**Notice of General Meeting**

#### 1. Introduction

The Board announced on 15 January 2018 that it has proposed to raise, subject to certain conditions, approximately £18.4 million (before expenses) by way of a firm placing and a placing and open offer comprising: (i) approximately £14 million (before expenses) by way of a firm placing of 139,605,000 New Ordinary Shares at a placing price of 10 pence per share; and (ii) £4.4 million (before expenses) by way of an open offer made to Eligible Shareholders of 44,057,946 New Ordinary Shares at a price of 10 pence per share. The Open Offer Shares have been conditionally placed with two of the Company's existing shareholders, Henderson and Lansdowne, subject to clawback to satisfy valid acceptances by Eligible Shareholders under the Open Offer (the "Placing and Open Offer" and, together with the Firm Placing, the "Capital Raising"). The Placing Price represents a discount to the closing mid-market price of the Ordinary Shares as at 12 January 2018 of 17.25 pence per Ordinary Share.

The Directors intend to use the net proceeds raised by the Capital Raising as follows: (i) £13.6 million to be used towards funding initial direct and indirect development costs in respect of the Company's Mississippi biorefinery, while the Company pursues strategic investment for development costs and the project capex; and (ii) £3.5 million to be used for working capital and central costs, including costs to pursue the Company's UK waste-to-renewable jet fuel project and to support ENVIA. Details of the basis on which the Directors have estimated the Company's funding requirements are set out in paragraph 5 of Part I (*Letter from the Chairman of Velocys plc*) of this document.

The Capital Raising is conditional (amongst other things) upon the passing of certain resolutions in order to ensure that the Directors have the necessary authorities and powers to allot the Firm Placing Shares and Open Offer Shares for cash on a non-pre-emptive basis. A General Meeting is therefore being convened for the purpose of considering the Resolutions at 10.00 a.m. on 31 January 2018 at the offices of Mayer Brown International LLP, 201 Bishopsgate, London, EC2M 3AF. The Notice of General Meeting is set out at the end of this document. The Capital Raising is also conditional on the Joint Broker Placing Agreement becoming unconditional and not being terminated in accordance with its terms. Neither the Firm Placing nor the Placing and Open Offer is being underwritten by Numis or Canaccord.

The purpose of this document is to provide you with details of, and the reasons for, the Capital Raising and why the Directors believe it to be in the best interests of the Company and its Shareholders and, further, why

they recommend that you vote in favour of the Resolutions. The Directors intend to vote in favour of the Resolutions in respect of their legal and/or beneficial shareholdings amounting, in aggregate, to 315,789 Ordinary Shares representing approximately 0.22 per cent. of the Ordinary Shares in issue as at the date of this document.

Further details of the Firm Placing and the Placing and Open Offer are set out in paragraphs 6 and 7 below, respectively.

## **2. Information on the Company's projects**

### **(a) ENVIA – the Company's commercial reference plant**

In September 2016, construction of the first plant incorporating the Company's technology was completed. This was ENVIA Energy's plant in Oklahoma City, which acts as the commercial scale reference plant for the Company's technology, and which uses landfill gas as well as pipeline natural gas as feedstock. ENVIA subsequently delivered the start up of the commercial scale Fischer-Tropsch modules and upstream units, culminating in the first Fischer-Tropsch product being successfully produced in February 2017. In June 2017, the first finished, products (premium renewable waxes, diesel and naphtha) were produced and in September 2017 the plant produced its first sustainable revenues. In October 2017, the plant achieved an operational capacity of 200 barrels per day and the Directors believe that the plant will continue ramping up to its target operational capacity of 250 barrels per day. Finished saleable products are meeting customer product specifications and revenues are being generated from sales to product offtakers.

The Company expects that the ENVIA plant will obtain Renewable Identification Number qualification during the first quarter of 2018, with the first qualified Renewable Identification Number sale and positive cash flows expected during the second quarter of 2018. The Velocys reactor technology in the ENVIA plant represents the commercial system that will be used in the Company's future renewable fuels biorefineries.

The board of ENVIA is in the process of assessing the likely funding requirements of the project to achieve positive cash flows, following which it may seek contributions from some or all of the joint venture partners (including the Company).

### **(b) Mississippi – the Company's second US biorefinery, using woody biomass**

#### *Overview*

In October 2017, the Company signed a site option agreement with Adams County in the State of Mississippi for its second US biorefinery to be located in Natchez, Mississippi. The Company has been offered economic development incentives from Adams County (for which Natchez is the county seat) estimated to be worth the equivalent of \$42 million. The Directors expect the project to qualify for additional incentives worth up to \$15 million, provided via Mississippi's Advantage Jobs Act and other statutory tax incentives. These incentive packages would reduce the Company's future tax liabilities and are subject to the Company meeting certain minimum requirements for capital investment and local employment opportunities. The Company has also received commitments from Adams County worth approximately \$4 million (relating to the land and upgrades to the site) and \$1 million site upgrade commitments from local utility suppliers, further increasing the attractiveness of the site.

The site and local area benefits from: (i) an attractive regulatory and tax regime; (ii) the availability of an abundant local supply of low cost forestry residue that will form the feedstock of the plant; (iii) advantaged transportation infrastructure including barge, rail and road; (iv) accessible utilities; (v) land that meets all the required criteria including space and terrain to support an industrial development; (vi) a local workforce skilled in servicing the forestry industry; and (vii) a local community with facilities and amenities that will attract additional skilled personnel during construction and ongoing plant operations. The choice of the 100-acre Natchez site was confirmed after the Company analysed a broad set of operational and tax considerations at twelve possible sites

in four States in the Southeast of the United States. Due diligence, including site visits, was completed at each of these sites and incentive offers were received from each State in question. The Directors believe that the Natchez biorefinery will be the first of a series of woody biomass residue conversion to renewable fuels biorefineries to be set up by the Company.

The Company began the process of selecting strategic partners for its Mississippi biorefinery projects in early 2017 and continues to assess and refine its choice of partners. Site permitting is ongoing. Pre-FEED has been completed and the integrated technology demonstration is expected to commence shortly. The initial phase of the FEED engineering study will commence in the first quarter of 2018. The Company is in the process of selecting an EPC partner to complete the FEED study.

The Company estimates that total remaining capital for it to develop the project to FID will be in the order of £45 million. In addition to the expenditure proposed by the Company from the net proceeds of the Capital Raising, the Company intends to secure investment by a strategic partner.

In respect of the project capex, details of which are set out below, the Company intends that equity letters of intent in relation to the Mississippi plant are expected to be entered into during the first half of 2019, with FID and signature of feed/offtake agreements expected during the middle part of 2019. Plant construction is then expected to commence following FID, with plant commissioning expected to begin during 2021.

The signature of the site option agreement completes one of the work packages required for the U.S. Department of Agriculture loan guarantee application. The Company was invited to submit a Phase II application for the loan guarantee in June 2017, which could apply to up to \$200 million of debt as part of the total installed cost of the project. The Company has engaged SMBC as the lender of record and as its financial advisor. A preliminary credit committee hearing is expected to take place with SMBC in due course, with the final credit committee hearing thereafter as the project nears FID. The Company expects to receive the US Department of Agriculture's conditional commitment of its loan guarantee in the third quarter of 2018.

#### *Key estimates of Mississippi biorefinery economics<sup>1</sup>*

The key estimates of the economic parameters of the Mississippi biorefinery are as follows:

- 20 million gallons per year renewable fuels;
- 900 tonnes per day dry feedstock (approximately \$1.00 per gallon);
- approximately \$60 million state and local incentives;
- \$350-425 million estimated capex;
- \$50 million annual OPEX (\$2.50 per gallon);
- \$138 million annual revenue (\$6.90 per gallon) (\$1.52/\$0.55/\$4.83 from products/state credits/federal credits); and
- \$200 million US Department of Agriculture loan guarantee underwritten by SMBC

#### *Indicative Mississippi biorefinery capital structure<sup>2</sup>*

An indicative capital structure of the Mississippi biorefinery is as follows:

- \$450-575 million total investment capital, of which:
  - \$350-425 million comprises estimated capex;
  - \$50-100 million comprises estimated financing costs; and

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1 All key Mississippi biorefinery economics figures are estimates and based on the pre-FEED assessment and additional scope and cost reviews by potential EPC candidates.

2 All indicative Mississippi biorefinery capital structure figures are estimates.

- approximately \$50 million comprises the estimated development fee, contingency and other costs.
- EPC contractors to be engaged by the Company will be of investment grade.
- The Company foresees a capital structure for the project as follows:
  - \$200 million US Department of Agriculture loan guarantee SMBC underwritten at low cost of debt;
  - \$50 million subordinated debt;
  - \$200-325 million equity (infrastructure funds, private equity).

At the point that the Mississippi biorefinery reaches FID, the Company will have the option to negotiate financing structures with the equity finance providers which have different capital requirements for the Company. Indicative structures for the Mississippi biorefinery equity stakes and returns are as follows:

<i>Indicative option</i>	<i>Range of Company NPV (£)</i>	<i>Differentiated economics</i>
1. SPV investment and full carry/uplift of development capital.	Project fees – £7 million Licensing – £20 million Equity – £136 million	SPV investment = (\$29 million) Developers investment = (\$25 million) Development fee = \$0 Velocys NPV = \$121 million Velocys levered IRR = 43 per cent. Project levered IRR = 30 per cent. Project unlevered IRR = 11 per cent.
2. No SPV investment and full carry/uplift of development capital.	Project fees – £7 million Licensing – £20 million Equity – £99 million	SPV investment = (\$0) Developers investment = (\$25 million) Development fee = \$0 Velocys NPV = \$102 million Velocys levered IRR = 47 per cent. Project levered IRR = 30 per cent. Project unlevered IRR = 11 per cent.
3. No SPV investment, full developer fee at FID and lower uplift carry.	Project fees – £35 million Licensing – £20 million Equity – £17 million	SPV investment = (\$0) Developers investment = (\$25 million) Development fee = \$29 million Velocys NPV = \$48 million Velocys levered IRR = 77 per cent. Project levered IRR = 32 per cent. Project unlevered IRR = 12 per cent.

The Directors anticipate that the economics for subsequent biorefineries will incrementally improve, as a result of optimisation of capital and operational expenditure, construction costs, timeline to commercial operations, process integration costs and the cost of capital.

#### *Feedstock and markets for the renewable fuels produced at the Mississippi biorefinery*

There are abundant woody biomass residues in the US that are expected to be used as the feedstock for the Mississippi biorefinery. Over 300 million dry tonnes of suitable feedstock is available every year in the United States. It is anticipated that the Mississippi biorefinery will require approximately 330 thousand tonnes per year of feedstock, from which it will produce 20 million gallons per year of renewable fuels. The renewable volume obligation for cellulosic biofuels is currently 311 million gallons. This is a small fraction of the overall demand for diesel and jet fuel in the US, where there is predicted to be strong demand growth. The demand for jet fuel in the US was estimated to be 20 billion gallons per year in 2016, with demand expected to grow by 40 per cent. to reach 28 billion gallons per year in 2040. The demand for diesel in the US is currently estimated to be 40 billion

gallons per year, with demand expected to grow by 25 per cent. to reach 50 billion gallons per year in 2040.

(c) ***UK waste-to-renewable jet fuel plant***

*Overview*

In September 2017, the Company entered a partnership with various parties to prepare a business case for a commercial scale waste-to-renewable jet fuel plant in the United Kingdom. The plant will take post-recycled waste, destined for landfill or incineration, and convert it into clean-burning, sustainable jet fuel. The Directors believe that the changes to the Renewable Transport Fuels Obligation recently published by the UK Government's Department for Transport provide the required commercial platform for this opportunity as, for the first time, jet fuel will qualify for credits under the Renewable Transport Fuels Obligation. Other members of the partnership include UK-based international airline British Airways (owned by International Consolidated Airlines Group SA), recycling and waste management expert, Suez Recycling and Recovery UK Ltd and Norma Investments Ltd (an affiliate of Ervington, one of the Company's major shareholders).

The feasibility study for the project has commenced and the Company has two site options under evaluation for the proposed plant.

The Directors believe that successfully delivering the UK waste-to-renewable jet fuel plant project could be the starting point for entry by the Company into the UK waste market. Based on an input of 300,000 – 500,000 tonnes per year, the Company believes that the UK waste-to-renewable jet fuel plant will be capable of producing an output of between 10 million and 20 million gallons per year once the plant is fully operational.

*Feedstock and market for fuels produced by the UK waste-to-renewable jet fuel plant*

There are estimated to be over 15 million tonnes per year of waste generated in the UK that the Directors believe is suitable for use as feedstock for this project. UK jet fuel demand is currently estimated to be 3.7 billion gallons per year, which is predicted to grow with a 1 per cent. compound annual growth rate to 4.6 billion gallons per year in 2040. The Renewable Transport Fuel Obligation development fuel target for 2022 is 100 million gallons (which is the total volume of qualifying fuels produced in the UK for which double Renewable Transport Fuel Certificates will be payable, should the proposed changes to the Renewable Transport Fuel Obligation be implemented by the Government).

### **3. Information on the Company**

*History and development of the Company*

The key highlights in the history and development of the Company are as follows:

- **2001:** Velocys Inc. was incorporated (by Battelle Memorial Institute)
- **2004:** Oxford Catalysts was formed (as a spin out from the University of Oxford)
- **2006:** Oxford Catalysts Group was admitted to trading on AIM
- **2008:** Oxford Catalysts acquired Velocys Inc.
- **2010:** The Company's microchannel Fischer-Tropsch technology was demonstrated at a field demonstration in Austria
- **2012:** A Fischer-Tropsch field demonstration was carried out at a Petrobras site in Brazil
- **2013:** Oxford Catalysts Group PLC changed its name to Velocys plc (Ticker: VLS.L)
- **2014:** The ENVIA Energy joint venture was formed. FID for its Oklahoma City plant followed later that year
- **2017:** the Mississippi Biorefinery project announced



- **2017:** UK waste-to-renewable jet fuel project announced
- **2017:** ENVIA's Oklahoma City plant fully operational

#### *The Velocys team*

The Executive Committee of the Company is comprised of David Pummell (Chief Executive Officer), Dr Paul Schubert (Chief Operating Officer), John Tunison (Interim Chief Financial Officer) and Henrik Wareborn (Interim Chief Commercial Officer).

The Executive Committee has extensive experience in oil and gas (with members of the Executive Committee having previous experience at BP, Shell and Phillips, as well as in refining and marketing business management, manufacturing, finance, supply and logistics), renewable/gas-to-liquid plants (with members of the Executive Committee having previous experience at Sasol, Syntroleum and SGS, as well as generally in project management, plant commissioning and start up, operations and gas-to-liquid products), as well as having commercial and financing experience (with members of the Executive Committee having previous experience at Goldman Sachs, Natixis and generally in investment banking, commodities trading, private equity/venture capital fundraising and project finance).

Other members of the wider Velocys team have experience in the oil & gas industry and project engineering, and the team includes experts in plant commissioning and operations, as well as commercial, intellectual property and finance professionals.

#### *Business model*

Velocys, with its commercial scale technology and new strategy and business model, is now entering renewable fuels markets to grow a material supply position. The Company has world class partners, and the Directors believe that the Company is at the forefront of unlocking the advanced renewable fuels market. There is strong legislative support for renewable fuels in the United States at both the Federal and State levels.

The Company's go to market strategy can be summarised as:

- identifying attractive markets with scale and optimal locations for future plants;
- focusing on the Company's priority market – US biomass residues to renewable jet and diesel;
- building a consortia of strategic and financial partners to deliver investment, scale and pace to market; and
- leveraging the Company's engineering, operational and technology expertise to optimise future plant costs and timelines.

#### *Capital structure*

In May 2017, the Company raised a total of £10 million (before expenses) which consisted of:

- £9 million of convertible loan notes issued to the Company's two largest shareholders, Ervington and Lansdowne at a price of £0.50 per loan note. The convertible loan notes were unsecured, with the final maturity date being 18 months from the date of issue, with interest accruing at a rate of 8 per cent. per annum. Conversion was restricted for any note holder if, as a result of conversion, their shareholding would exceed 29.9 per cent.; and
- an equity placing of approximately £1 million from other shareholders at a placing price of £0.45 per Ordinary Share.

A total of 146,859,819 Ordinary Shares have been issued and allotted, with options, warrants and convertible loan notes in respect of an additional 28,805,933 Ordinary Shares. The total number of Ordinary Shares, fully diluted is therefore 175,665,752. As at the close of trading on 12 January 2018, the share price of the Company was 27.25 pence, giving the Company a market capitalisation of approximately £40 million as at 12 January 2018.

#### **4. Current trading**

The Company's financial position and funding requirements reflect its stage of development as activities become focused on commercial rollout. Revenues for the period ended 30 June 2017 and since were minimal, reflecting the Company's transition to commercial operations.

The interim financial statements for the six months ended 30 June 2017 can be summarised as follows. The revenues for the period were £0.2m (H1 2016: £0.5m). Operating loss for the period was £9.4m before and £10.1m after exceptional costs (H1 2016: £9.5m before and £9.4m after exceptional costs). Cash (including short term investments) at period end stood at £13.8m (31 December 2016: £18.7m), while cash outflow was £4.9m (H1 2016: £13.3m). Cash outflow included the fundraise of £10m (before expenses) in May 2017, and drawdowns through the period by ENVIA on the loan facility provided by Velocys of £6.9m; cash outflow excluding these items was £7.7m.

#### **5. Use of Proceeds**

The Company intends to raise gross proceeds of approximately £18.4 million (before expenses) pursuant to the Capital Raising, equivalent to approximately £17.1 million net of expenses. The Directors intend that the net proceeds of the Capital Raising will be used by the Company as follows:

- £4.5 million to be used for its projects, predominantly for initial development costs in respect of the Company's Mississippi biorefinery and potentially in support of the ENVIA the UK waste-to-renewable jet fuel projects;
- £9.1 million to be used for indirect project development costs; and
- £3.5 million to be used for working capital and central costs.

The Company estimates that total remaining operating and project costs for it to develop the Mississippi biorefinery project to FID will be in the order of £45 million. In addition to the expenditure proposed by the Company from the net proceeds of the Capital Raising, the Company intends to secure investment by a strategic partner. The Company is targeting strategic project investment during the first half of 2018 and expects that several significant development milestones, such as the ENVIA plant obtaining Renewable Identification Number qualification and reaching profitability, completion of the integrated technology demonstration and SMBC preliminary credit committee, will be achieved during the first half of 2018.

The achievement of FID will be dependent on the Company's ability to secure the requisite debt and equity funding for the project capex from strategic partners or otherwise, as well as the key project procurement, supply and offtake contracts. As such, the timing of reaching FID is not wholly within the Company's control and the costs of reaching FID, or the costs of progressing the development of the Mississippi biorefinery project will be higher if the Mississippi biorefinery project does not progress to FID in the timeframes currently anticipated. Should the Company not secure strategic investment, it will need to seek further funding in due course in order to be able to cover development costs and its working capital requirements, which may be from one or a combination of a capital raising or the realisation of its assets, such as selling its stake or security in the ENVIA project, granting additional intellectual property licences or selling non-core intellectual property.

On achievement of FID, the Company expects to receive: (i) a licence fee in cash for the supply of its technology, reactors and catalyst; and (ii) ongoing fees for management and engineering services to be provided to the project as well as operational management of plant commissioning and start-up. The Company also intends to secure either or both of a capital development fee and a stake in the project with a significant value uplift compared to its capitalised development costs. The Company's funding requirements following FID will therefore depend on the final structure of the FID consortium and on the Company's strategy to develop and fund its subsequent biorefineries. The financing options that the Company has will be strategically evaluated by the Directors throughout the period up to FID.

#### **6. Principal terms of the Firm Placing**

The Company proposes raising approximately £14 million, before expenses, by way of a firm placing of up to 139,605,000 new Ordinary Shares at the Placing Price. The Firm Placing Shares will be placed by Numis,

Canaccord and the Other Brokers as agents for the Company and pursuant to the Placing Agreements, with institutional and other professional investors. The Firm Placing is subject to the terms and conditions set out in Appendix I of the announcement made by the Company on 15 January 2018 in relation to the Capital Raising. The Firm Placing Shares are not subject to clawback and are not part of the Placing and Open Offer.

The Placing Price represents a discount to the closing mid-market price of the Ordinary Shares as at 12 January 2018 of 17.25 pence per Ordinary Share. The Firm Placing Shares will represent approximately 42.2 per cent. of the Enlarged Share Capital (provided that no options, warrants or convertible loan notes are exercised) and will, when issued, rank *pari passu* in all respects with the other Ordinary Shares then in issue, including all rights to all dividends and other distributions declared, made or paid following Admission.

The Firm Placing is conditional upon (amongst other things):

- (a) the passing of the Resolutions at the General Meeting;
- (b) the Joint Broker Placing Agreement becoming unconditional and not having been terminated in accordance with its terms;
- (c) Admission occurring on or before 1 February 2018 (or such later date as Numis, Canaccord and the Company may agree, not being later than 15 February 2018);

The Joint Broker Placing Agreement contains warranties from the Company in favour of Numis and Canaccord in relation to, (amongst other things), the Company and its business. In addition, the Company has agreed to indemnify Numis and Canaccord in relation to certain liabilities it may incur in undertaking the Capital Raising. Numis and Canaccord have the right to terminate the Joint Broker Placing Agreement in certain circumstances prior to Admission, in particular, it may terminate in the event that there has been a material breach of any of the warranties or for *force majeure*.

Application will be made for the Firm Placing Shares to be admitted to trading on AIM, subject to the Joint Broker Placing Agreement not having been terminated, and it is expected that trading in the Firm Placing Shares will commence at 8.00 a.m. on 1 February 2018.

Certain of the Directors intend to subscribe for 450,000 Firm Placing Shares in aggregate at the Placing Price, representing approximately 0.3 per cent. of the Firm Placing Shares. Assuming that those Directors subscribe, immediately following Admission (and assuming no other issuance of new Ordinary Shares prior to Admission), the Directors of the Company will have a legal and/or beneficial interest in 765,789 Ordinary Shares.

## **7. Principal terms of the Placing and Open Offer**

The Company considers it important that, where reasonably practicable, Shareholders have an opportunity to participate in its equity fundraisings. Accordingly, the Company is proposing to raise £4.4 million (before expenses) by way of the Open Offer. The Open Offer Shares have been conditionally placed with two of the Company's existing Shareholders, Henderson and Lansdowne, subject to clawback to satisfy valid acceptances by Eligible Shareholders under the Open Offer. Henderson and Lansdowne have agreed under the terms of the Placing Letters to subscribe for the maximum number of Open Offer Shares at the Placing Price, subject to clawback, on an equal basis.

The Open Offer has been structured such that the maximum amount that can be raised by the Company under the Open Offer will not exceed the sterling equivalent of €5 million. This maximum limit has been set to ensure that the Company is not required to produce an approved prospectus pursuant to section 85 of FSMA. The issue of a prospectus would considerably increase the costs of the fundraising and it would take much longer to complete, as any such prospectus would require the prior approval of the UKLA. Based on a £:€ exchange rate of 1.1233, this means that the maximum amount which could be raised under the Open Offer is £4,451,171. The Company is proposing to raise £4.4 million (before expenses) by way of the Open Offer.

On, and subject to the terms and conditions of the Open Offer, the Company invites Eligible Shareholders, being only Shareholders who are resident in the United Kingdom on the Ex-Entitlement Date, to apply for

their Basic Entitlement of Open Offer Shares at the Placing Price. Each Eligible Shareholder's Basic Entitlement has been calculated on the basis of 3 Open Offer Shares for every 10 Existing Ordinary Shares held at the Record Date.

Eligible Shareholders are also invited to apply for additional Open Offer Shares in accordance with the Excess Entitlement. Any Open Offer Shares not issued to an Eligible Shareholder pursuant to their Basic Entitlement will be apportioned between those Eligible Shareholders who have applied for the Excess Entitlement at the sole discretion of the Board, provided that no Eligible Shareholder shall be required to subscribe for more Open Offer Shares than he or she has specified on the Application Form or through CREST.

The Open Offer is conditional upon:

- (a) the passing of the Resolutions at the General Meeting;
- (b) the Joint Broker Placing Agreement becoming unconditional and not having been terminated in accordance with its terms;
- (c) Admission occurring on or before 1 February 2018 (or such later date as Numis, Canaccord and the Company may agree, not being later than 15 February 2018);

**The Open Offer Shares have not been and are not intended to be registered or qualified for sale in any jurisdiction other than the United Kingdom. Accordingly, unless otherwise determined by the Company and effected by the Company in a lawful manner, the Application Form will not be sent to Existing Shareholders with registered addresses in any jurisdiction other than the United Kingdom since to do so would require compliance with the relevant securities laws of that jurisdiction. Applications from any such person will be deemed to be invalid. If an Application Form is received by any Shareholder whose registered address is elsewhere but who is in fact a resident or domiciled in a territory other than the United Kingdom, he/she should not seek to take up his/her allocation.**

Part III (*Terms and Conditions of the Open Offer*) of this document, together with the accompanying Application Form, contains the terms and conditions of the Open Offer.

**If an Eligible Shareholder does not wish to apply for Open Offer Shares he should not complete or return the Application Form or send a USE message through CREST.**

## **8. Related party transactions**

The participation of each of Ervington, Lansdowne and Henderson in the Capital Raising constitutes a related party transaction under the AIM Rules as each is a substantial shareholder (within the meaning of the AIM Rules). Ervington are subscribing for 40,000,000 Firm Placing Shares at the Placing Price and Lansdowne are subscribing for 30,000,000 Firm Placing Shares at the Placing Price. In addition, each of Lansdowne and Henderson are conditionally subscribing, subject to clawback, for 22,000,000 Open Offer Shares at the Placing Price in respect of which they will receive a commission of 5.25 per cent. of the aggregate value at the Placing Price from the Company. The Directors consider, having consulted with Numis, the Company's nominated advisor, that the terms of the related party transaction are fair and reasonable in so far as its Shareholders are concerned.

## **9. Resolutions**

The Company currently does not have sufficient authority to allot shares under the Act to effect the Capital Raising. Accordingly the Resolutions, summarised below, are being proposed at the General Meeting to ensure that the Directors have sufficient authority to allot and issue the Firm Placing Shares on a non-pre-emptive basis and to allot and issue the Open Offer Shares.

- (a) Resolution 1 is an ordinary resolution to grant authority to the Directors under s551 of the Act to allot relevant securities, up to a maximum aggregate nominal amount of £1,836,630 pursuant to the Capital Raising, such authority expiring at the earlier of the Company's next annual general meeting and 30 April 2019.

If Resolution 1 is passed, the Directors will have the authority, under the Act, to allot Ordinary Shares up to the maximum aggregate nominal amount of £1,836,630 (being the maximum required for the purposes of issuing the Firm Placing Shares and Open Offer Shares); and

- (b) Resolution 2 is a special resolution, conditional upon the passing of Resolution 1, to empower the Directors, pursuant to s570 of the Act, to allot Ordinary Shares up to a maximum aggregate nominal amount of £1,836,630 on a non-pre-emptive basis pursuant to the Capital Raising, such authority expiring at the earlier of the Company's next annual general meeting and 30 April 2019.

If Resolution 2 is passed, the Directors will have the power, under the Act, to allot the Firm Placing Shares without offering those shares to existing Shareholders and to allot the Open Offer Shares without offering the Open Offer Shares to Shareholders resident in a Restricted Jurisdiction and to avoid the need to issue fractional entitlements to Ordinary Shares.

These authorities are required to enable the Directors to effect the Capital Raising and are in addition to the general authorities that were granted by Shareholders at the Company's annual general meeting on 22 June 2017, which gave the Directors authority to allot relevant securities up to a maximum aggregate nominal amount of £480,052.39 under s551 of the Act and to allot Ordinary Shares up to a maximum aggregate nominal amount of £144,015.72 on a non-pre-emptive basis under s570 of the Act (such authorities expire at the next annual general meeting of the Company or 31 July 2018, whichever is earlier).

Resolution 1 is an ordinary resolution and requires a majority of more than 50 per cent. of the Shareholders voting to be passed. Resolution 2 is a special resolution and requires the approval of more than 75 per cent. of the Shareholders voting to be passed.

The Notice of General Meeting is contained at the end of this document and sets out the Resolutions in full. The General Meeting is to be held at the offices of Mayer Brown International LLP, 201 Bishopsgate, London EC2M 3AF at 10.00 a.m. on 31 January 2018.

## **10. Action to be Taken by Shareholders**

### **(a) *In respect of the General Meeting***

Enclosed with this document is a Form of Proxy for use at the General Meeting. Whether or not you intend to be present at the General Meeting, you are requested to complete, sign and return the Form of Proxy to the Company's registrars, Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF so as to be received as soon as possible and, in any event, not later than 10.00 a.m. on 29 January 2018. If you complete and return the Form of Proxy, you may still attend and vote at the General Meeting should you wish to do so. Shareholders who hold their ordinary Shares through a nominee should instruct their nominees to submit a Form of Proxy on their behalf.

### **(b) *In respect of the Open Offer***

- (i) *Eligible Non-CREST Shareholders (i.e. holders of Ordinary Shares who hold their shares in certificated form).*

If you are an Eligible Non-CREST Shareholder and wish to participate in the Open Offer, you should carefully read the Application Form accompanying this document and send the Application Form along with the appropriate remittance to the Company's Receiving Agent, Link Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by no later than 11:00 a.m. on 30 January 2018 and in accordance with the procedure set out at paragraph 4(a) of Part III (*Terms and Conditions of the Open Offer*) of this document.

- (ii) *Eligible CREST Shareholders (i.e. holders of Ordinary Shares who hold their shares in uncertificated form through CREST).*

If you are an Eligible CREST Shareholder, no Application Form is enclosed. You will instead receive a credit to your account in CREST in respect of your Basic Entitlement and also in respect of your Excess Entitlement (equal in size to the maximum number of Open Offer

Shares available under the Open Offer less an amount equal to the Eligible Shareholder's Basic Entitlement). You should refer to the procedure for application set out in paragraph 4(b) of Part III (*Terms and Conditions of the Open Offer*) of this document.

Eligible CREST Shareholders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this document and the Open Offer.

Eligible Shareholders with holdings of Existing Ordinary Shares in both certificated and uncertificated form will be treated as having separate holdings for the purpose of their applications under the Open Offer. If you are not an Eligible Shareholder and a person who has a contractual or other legal obligation to forward this document or an Application Form into a jurisdiction outside the UK and who has a registered address in, or who is resident or ordinarily resident in, or a citizen of, or which is a corporation, partnership or another entity created or organised under the law of a country other than the UK, then your attention is drawn to the information in paragraph 7 of Part III (*Terms and Conditions of the Open Offer*) of this document.

Eligible CREST Shareholders should note that, although Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of entitlements under the Open Offer may only be made by the Eligible Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim raised by Euroclear's Claim Processing Unit. Eligible non-CREST Shareholders should note that their Application Form is not a negotiable entitlement and cannot be traded.

## **11. Recommendation**

**The Directors consider that the Capital Raising and the Resolutions are in the best interests of the Company and its Shareholders as a whole. The Company is reliant on the net proceeds of the Capital Raising to meet its immediate liquidity requirements, to continue to implement its strategy and, in particular, to progress the Mississippi biorefinery while the Company seeks to secure strategic investment for development costs and the project capex. If the Resolutions are not passed by Shareholders, the Capital Raising will not proceed. In these circumstances, the Directors will need to reconsider the Company's strategy and the Company would need to seek alternative funding, which may not be available on terms which are acceptable to the Company or at all, in which case the Company may be unable to meet its future liabilities as they fall due. Accordingly, the Directors unanimously recommend that Shareholders vote in favour of the Resolutions, as they intend to do in respect of their own legal and/or beneficial shareholdings, amounting, in aggregate, to 315,789 Ordinary Shares (representing approximately 0.22 per cent. of the Ordinary Shares in the issue as at the date of this document).**

Yours faithfully

**Dr. Pierre Jungels, CBE**  
*Chairman*

## PART II

### RISK FACTORS

**An investment in the New Ordinary Shares is highly speculative and involves a high degree of risk. Before making any investment decision, prospective investors should carefully consider all the information contained in this document including, in particular, the risk factors described below. In addition to the usual risks associated with an investment in a business such as the Company's, the Directors believe that, in particular and in no order of priority, the following risk factors should be considered. Other factors relate principally to an investment in the New Ordinary Shares. It should be noted that this list is not exhaustive and that other risk factors may apply. Additional risks and uncertainties not currently known to the Directors, or that the Directors currently deem immaterial, may also have an adverse effect on the Group's business, financial condition and results of operations.**

This document contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by the Company which are described below and elsewhere in this document. Prospective investors should carefully consider the other information in this document. The risks listed below do not necessarily comprise all the risks associated with an investment in the Company.

An investment in the Company may not be suitable for all recipients of this document. Investors are accordingly advised to consult an independent financial adviser duly authorised under FSMA and who specialises in advising upon the acquisition of shares and other securities before making a decision to invest.

#### **1. RISKS RELATING TO THE COMPANY AND ITS BUSINESS**

##### **1.1 Risk factors associated with Velocys' operations**

###### ***Company's working capital requirements***

The Company is reliant on the net proceeds of the Capital Raising to implement its strategy, as described in paragraph 5 of Part I (*Letter from the Chairman of Velocys plc*) of this document. The Capital Raising is conditional on, amongst others, the passing of the Resolutions at the General Meeting. If one of the conditions is not fulfilled, the Company may fail to raise any proceeds as a result of the Capital Raising. In this case, the Company will not have the working capital it requires to implement its current strategy and the Company will need to reconsider its options, including a review of that strategy. If the Capital Raising does not complete for whatever reason, it could adversely affect the Company's business, financial condition, results or future operations.

###### ***Pace of commercial adoption***

The adoption of a new technology, particularly one with high capital requirements, is inherently difficult to predict and there is a risk that commercial roll-out may be slower than anticipated by the Company. There are no assurances that projects using the technology will be developed on time, within budget, or operate immediately upon start-up. Furthermore, third parties involved in the financing of such projects may delay funding them for reasons outside the Company's control. Any material delays or unbudgeted expenditures incurred on such projects could postpone or halt the widespread adoption of the Company's technology, which could adversely affect the Company's business, financial condition, results or future operations.

###### ***Financial markets and global economic outlook***

The performance of the Company will be influenced by global economic conditions and, in particular the conditions prevailing in the United States and the United Kingdom. The Company may be exposed to increased counterparty risk as a result of business failures in the countries in which it operates and will continue to be exposed if counterparties fail or are unable to meet their obligations to the Company. The precise nature of all the risks and uncertainties that the Company faces as a result of the global economic outlook cannot be predicted and many of these risks are outside of the

Company's control. If economic conditions become challenging, this could adversely affect the Company's business, financial condition, results or future operations.

Additionally, the Company will seek to raise sufficient debt and equity in the capital markets for its current and future projects as the net proceeds of the Capital Raising will not be sufficient to progress the Mississippi biorefinery to FID without raising further funds. Any additional equity financing may be dilutive to Shareholders and further debt financing, if available, may involve restrictions in financing and operating activities. Moreover, the further issue of Ordinary Shares could have a negative impact on the trading price and increase the volatility of the market price of the Ordinary Shares. In addition, there can be no assurance that the Company will be able to raise additional funds when needed or that such funds will be available on terms favourable to it, which could adversely affect the Company's ability to raise sufficient capital to construct and commission or progress its projects and the Company's business, financial condition, results or future operations.

#### ***Foreign exchange***

The Company holds its cash and transacts in multiple currencies, which may expose it to foreign exchange related losses. Any losses as a result of foreign exchange fluctuations could adversely affect the Company's business, financial condition, results or future operations.

#### ***Tax legislation***

The Company is governed by the tax codes/legislation of the United States and the United Kingdom which may be amended in the future, introducing unfavourable tax risks related to ongoing transactions, project holdings and tax assets currently held in both countries. Any changes to relevant tax codes/legislation that are unfavourable to the Company could adversely affect the Company's business, financial condition, results or future operations.

#### ***Commodity price volatility***

Refined oil products such as diesel, naphtha and aviation fuel prices are volatile, depending on shifts in local, regional and global supply and demand and the general economic and political climate. These products are priced in liquid traded markets such as CME-NYMEX over which the Company has no control. Any decrease in oil prices could reduce the market's perception of the benefits of the Company's offering, the investment appetite of partners or the availability of capital to fund projects, which could adversely affect the Company's business, financial condition, results or future operations.

The Company relies on supply of cobalt for its catalysts. Cobalt is a byproduct of copper and nickel mining and about half of global supply is produced in the Democratic Republic of the Congo and is subject to price volatility as a result of a number of factors, including instability and changes in the political and economic environment. Any increase in the cost of cobalt may impact the Company's profitability and could adversely affect the Company's business, financial condition, results or future operations.

Furthermore, plants consume material amounts of natural gas and electricity and any increases in these energy costs may impact the Company's profitability and could adversely affect the Company's business, financial condition, results or future operations.

Additionally, commodity pricing, supply chain and availability in relation to construction materials are largely outside the Company's control and any adverse change in pricing, supply chain or availability could increase the costs of, or result in delays to, the Company's projects, which could adversely affect the Company's business, financial condition, results or future operations.

#### ***Likelihood of U.K. waste-to-renewable jet fuel project proceeding***

The U.K. waste-to-renewable jet fuel project is at an early phase of development. There is no guarantee that the project will proceed through successive development phases. Risks specific to this



project include the following, any of which could delay or halt the project before FID is reached, and/or reduce the attractiveness of the project to potential investors:

- the proposed changes to the Renewable Transport Fuel Obligation to cover aviation and support new “development fuels” may not be passed into law;
- there may continue to be a lack of clarity on future waste policy, including maintaining the U.K. Landfill Tax;
- there may continue to be policy uncertainty around waste for large scale capital intensive schemes;
- existing project partners may not be willing to fund successive development stages prior to FID; and
- capex estimates derived during engineering studies may make the project unfinanceable.

If the U.K. waste-to-renewable jet fuel project does not progress to FID, this could adversely affect the Company’s business, financial condition, results or future operations.

#### ***Personnel – skills and retention***

The Company’s success depends upon its ability to attract and recruit, retain and incentivise highly skilled employees across all areas of the business. Of particular importance is the ability of the Company to utilise the experience, capability and know-how of its process engineers, commercial product marketing team, feed stock supply and other specialists who provide client support, financial and technical assistance through the design, construction, start up and initial operation of plants. If the Company is unable to retain or successfully attract and recruit key employees across all areas of the business, including at the Mississippi biorefinery, it could delay or prevent the implementation of its strategy, which could adversely affect the Company’s business, financial condition, results or future operations.

#### ***Supply chain for reactors and catalyst***

As a licensor of reactors and catalyst, the Company is reliant upon a number of manufacturers who have the expertise and capability to supply the Company’s plants with commercial-quantities of catalyst and commercial reactors. If a number of the key suppliers to the Company were unable to fulfil its order requirements for whatever reason, the Company would have to seek alternative suppliers, and there can be no guarantee that those alternative suppliers will be available at the required time, of sufficient quality, and at an acceptable price. If one or more of these conditions are not met, projects may be delayed until suitable suppliers are found, which could adversely affect the Company’s business, financial condition, results or future operations.

#### ***Regulatory and legislative changes***

The regulatory and/or legislative framework around biorefineries (besides the regulatory framework surrounding the U.S. Federal Renewable Fuel Standard and State of California Low Carbon Fuel Standard noted below) could be subject to change. There can be no assurances that the Company will continue to hold all of the necessary consents, approvals and licences required to conduct its business, and where new permissions are required, these may be delayed or not forthcoming. If any new approvals or licences are required in order for the Company to carry on its business, the Company could face delays or prohibitions on the use of its products, which could adversely affect the Company’s business, financial condition, results or future operations.

#### ***Insurance***

The Company requires various forms of insurance for itself and its projects. Failure to procure adequate and comprehensive coverage or to do so at a reasonable cost could introduce financial risks which could adversely affect the Company’s business, financial condition, results or future operations. Additionally, certain risks involved in the Company’s business may be uninsurable.

### ***Future of renewable fuels credits***

The economics of the Company's biorefineries are dependent on the receipt of U.S. Federal Renewable Fuel Standard Renewable Identification Number credits, and the State of California Low Carbon Fuel Standard credits in order to maintain revenues above operational costs. These two credit mechanisms are mutually independent and governed by separate laws.

There can be no guarantee that the pricing and market for either of these credits will remain supportive of biorefinery economics in the longer term. If the price of credits were to drop substantially it could significantly reduce the viability of biorefineries generally and materially adversely affect the Company's business, financial condition, results or future operations.

## **1.2 Risk factors specific to the Mississippi biorefinery**

### ***Offtake agreements***

The economics of the Company's renewable fuels plants are dependent on the performance of the contracted off-takers. Any default or failure to perform by the off-takers could have a negative impact on the Company's business, financial condition, results or future operations .

### ***Capital expenditure required for the Mississippi biorefinery***

There remains uncertainty regarding the capital expenditure required to build this first-of-a-kind biorefinery until completion of the FEED study, which is expected to proceed during 2018. The results of the FEED study could yield higher-than-expected capital expenditure, which could negatively impact the plant economics and, consequently, financeability, which could adversely affect the Company's business, financial condition, results or future operations.

### ***Strategic project investment***

The Company will need to secure strategic project investment for development capital costs to progress the Mississippi biorefinery project to FID. If the Company is not able to secure, or there is a delay in securing, sufficient strategic project investment, the achievement and obtaining the US Department of Agriculture loan guarantee of FID may be delayed which would adversely affect the Company's business, financial condition, results or future operations.

### ***Operating expenditure required for the Mississippi biorefinery***

There remains uncertainty regarding the level of operational expenses to run the biorefinery until completion of commissioning and beyond. Any significant increase in the level of operational expenses above what is expected by the Company to run the biorefinery until completion of commissioning could reduce the viability of the biorefinery or negatively impact the plant economics and, consequently, financeability, which could adversely affect the Company's business, financial condition, results or future operations.

### ***Development and licensing costs***

There remains uncertainty in the licencing costs and timeline of licensor packages for the Mississippi biorefinery and this uncertainty will not be resolved until completion of the FEED study, which is expected to proceed during 2018. Any decrease in the licencing costs currently anticipated by the Company, delay in the Company's anticipated timeline for agreeing licensor packages or reduction in the availability of licensor packages could negatively impact the plant economics and, consequently, financeability, which could adversely affect the Company's business, financial condition, results or future operations.

### ***EPC and subcontractor performance and supply chain***

There remains uncertainty regarding the scope and strength of EPC wrap, or technology/performance guarantee, across the entire plant scope available from the EPC contractor for a number of reasons, including: (i) the credit worthiness of the EPC as viewed by the lender of record, Sumitomo Mitsui

Banking Corporation, or its syndicated debt providers; (ii) the quantum/completeness of the technology wrap; and (iii) the scope/cost of alternative risk mitigation instruments.

Additionally, there are EPC and subcontractor performance risks pertaining to timeline and cost where there are unexpected overruns or other negative impacts not specifically covered by contracts or due to other factors such as *force majeure* events.

Any of the above risks could negatively impact the plant economics and/or technology risk and, consequently, financeability, which could adversely affect the Company's business, financial condition, results or future operations.

#### ***U.S. Department of Agriculture loan guarantee***

The Company intends to apply for a loan guarantee to be issued under the U.S. Department of Agriculture 9003 programme. This programme is authorised under the current Farm Bill and will require reauthorisation of funds at the end of the 2018 Congressional Fiscal Year. If other companies exhaust the capacity of the programme or if the programme is no longer authorised in the 2019 Congressional Fiscal Year, the Company will need to seek alternative forms of financing.

Until the U.S. Department of Agriculture's conditional approval is granted to the Company, there remain process and integration risks as the Company works to complete its Integrated Technology Demonstration, which could fail or fail to meet the U.S. Department of Agriculture's requirements.

If the Company fails to obtain the loan guarantee from the U.S. Department of Agriculture, it will need to seek alternative forms of financing for its Mississippi biorefinery project. There can be no assurance that the Company will be able to obtain alternative funds in such circumstances or that alternative funds will be available on terms favourable to it, which could adversely affect the Company's ability to raise sufficient capital to construct and commission the Mississippi biorefinery which could materially adversely affect the Company's business, financial condition, results or future operations.

#### ***Sumitomo Mitsui Banking Corporation underwriting of U.S. Department of Agriculture loan guarantee***

The Company intends to applying for a loan guarantee to be issued under the U.S. Department of Agriculture 9003 programme. This requires the lead lender, Sumitomo Mitsui Banking Corporation, to hold 15 per cent. of the project debt on their books for the term of the U.S. Department of Agriculture loan, which is 10 years. Failure to pass Sumitomo Mitsui Banking Corporation credit committee preliminary and final approval during 2018 for this share of the debt will materially impact the financing options and financing cost for the project. The Company would need to subsequently seek alternative sources of financing, such as bonds or other forms of debt, which could be higher cost or unavailable. Any change to the financing structure or costs could adversely affect the Company's business, financial condition, results or future operations.

#### ***National Environmental Policy Act review***

The Company must issue a comprehensive Environmental Impact Statement as required by the National Environmental Policy Act in order to proceed with the Mississippi biorefinery plant construction and operations. This statement will be processed by the State of Mississippi and needs to be endorsed by the relevant State and Federal authorities. The risk is that the Company does not receive a Finding of No Significant Issues (FONSI), which could significantly delay the project timeline or introduce higher costs or result in the inability to take the plant forward. Any significant timeline delay, higher costs or failure to secure State and Federal endorsements could adversely affect the viability of the biorefinery or negatively impact the plant economics and, consequently, financeability, which could adversely affect the Company's business, financial condition, results or future operations.

### ***Weather and flooding***

The site that has been selected by the Company for the Mississippi biorefinery is adjacent to the Mississippi River, so is intended to be protected by a levee that is currently under construction. The levee will have the effect of putting the site outside of a 100-year flood plain. However, a catastrophic flooding event could damage the site and the biorefinery itself. During construction of the levee and biorefinery, which will run concurrently, the Company intends to maintain flood insurance, but a flooding event could result in project delays. Additionally, if the levee construction is not completed, project delays and additional costs could arise.

During construction, startup/commissioning and operations of the Mississippi biorefinery, local weather conditions (including but not limited to hurricanes/tropical storms, tornadoes, forest fires and flooding) could adversely affect timelines, operability or costs.

Any damage to the site, delays to the timeline for construction, startup/commissioning and operations or increased costs as a result of flooding or other adverse weather conditions could adversely impact the profitability of the biorefinery which could adversely affect the Company's business, financial condition, results or future operations.

### ***Carbon intensity***

The economics of the Mississippi biorefinery will be driven to a large extent by product yield and overall operational availability of the biorefinery. However, a material portion of the biorefinery's revenues will be derived from federal and state credits, which rely on a certain carbon intensity threshold being met. The Company may not be able to increase the yield of the biorefinery by increasing process energy beyond a certain level to be determined during the FEED study. This may limit revenues from plant operations, which could adversely affect the Company's business, financial condition, results or future operations.

### ***ENVIA plant operating data***

ENVIA plant operating data collection is ongoing and helpful in order to optimise the Mississippi biorefinery costs and functionality. If the data collected were either insufficient or unavailable, this could adversely impact project capital expenditure and operating expenditure, which could adversely affect the Company's business, financial condition, results or future operations.

### ***Final product acceptance***

The Company's revenue model assumes that all products produced (naphtha, diesel, jet) will be used in their respective supply chains. The profitability of the Mississippi biorefinery would be materially adversely impacted if an off-taker were to determine that the Company's products were not within specification and remove them from their respective blends, which could adversely affect the Company's business, financial condition, results or future operations.

### ***Supply chain compliance and costs***

The Mississippi biorefinery is dependent on sourcing Renewable Fuel Standard compliant woody biomass via a fragmented supply chain to generate renewable fuels. Changes to the local demand market for woody biomass, availability of labour, or availability and cost of transportation and other equipment could increase the cost of the woody biomass supply and/or increase the radius and therefore complexity of the feedstock supply chain, which could adversely affect the Company's business, financial condition, results or future operations.

### ***Utilities***

The Mississippi biorefinery will rely on supply of various utilities and non-feedstock materials such as electricity, natural gas and other gasses, whose supply could be interrupted or changed for reasons outside the Company's control. Any interruption or adverse change in the supply chain for these utilities and non-feedstock materials could adversely affect the Company's business, financial condition, results or future operations.

### ***Outbound supply chain***

The site is adjacent to the Mississippi River and has access to a rail spur with shipments requiring appropriate batch sizing. Any changes to output or changes to the physical infrastructure surrounding the site could adversely affect profitability of the biorefinery, which could adversely affect the Company's business, financial condition, results or future operations.

### ***Labour costs/availability***

The Mississippi biorefinery will be located in a rural area. Whilst the local City of Natchez has a large available pool of potential employees, both availability of labour, in general, and the availability of labour with specialist skills could be limited, which could increase the costs of the project or introduce unforeseen delays and could therefore adversely affect the Company's business, financial condition, results or future operations.

### ***Technical and other risks of start-up***

As a first-of-its-kind biorefinery, there will be several process technologies integrated together for the first time or in new configurations or with different feed / output characteristics. There could be a risk of one or more technologies / processes failing to perform or perform correctly, which could introduce additional costs and delays to the project, including delays to receipt of revenue from the project. Other operational issues that have not been foreseen by the Company could also result in additional costs or delays to the project. In such circumstances, there can be no guarantee that sufficient funding will be available to complete the project, which could materially adversely affect the Company's business, financial condition, results or future operations.

## **1.3 Risk factors specific to the ENVIA biorefinery**

### ***No EPC recourse/third party construction claims***

Due to the recent bankruptcy filing of Ventech Engineers International, LLC, there is no financial recourse to the EPC of the ENVIA Plant for any technical, process or equipment problems that would normally be the responsibility of the EPC under their performance guarantee(s), technical wrap and insurance covers. This could result in financial liabilities for ENVIA and its joint venture partners, who may elect not to contribute additional resources which could adversely affect ENVIA's business, financial condition, results or future operations which could materially adversely affect the Company's business, financial condition, results or future operations.

In addition, there is the potential for third party construction contractor claims against the ENVIA joint venture arising as a result of billing disputes or non-payment by Ventech Engineers International, LLC, which could result in additional financial liabilities for ENVIA. Any additional financial liabilities for ENVIA could adversely affect the Company's business, financial condition, results or future operations.

### ***Renewable Identification Number qualification and Carbon Intensity***

U.S. Federal Renewable Fuel Standard Renewable Identification Number qualification requires demonstration of a number of parameters, including carbon intensity, which have not yet been achieved by the ENVIA plant. If ENVIA is not able to secure U.S. Federal Renewable Fuel Standard Renewable Identification Number qualification, this would significantly degrade revenues currently expected by the Company from the ENVIA plant, which could adversely affect the Company's business, financial condition, results or future operations.

### ***Product offtake and acceptance***

Offtake of products (wax, diesel and naphtha) are being made under long term contracts. As with any commercial agreement, there can be no assurance that contracts with reliable, long-term offtakers of the wax and diesel products are not renewed, or are terminated. The non-renewal or termination of any of these contracts could adversely affect the current revenue forecast for ENVIA and adversely impact the ongoing operation of the plant, which could adversely affect the Company's business, financial condition, results or future operations.

In addition, the profitability of the ENVIA plant would be materially adversely impacted if an off-taker were to determine that the ENVIA products were not within specification and remove them from their respective blends, which could adversely affect the Company's business, financial condition, results or future operations.

#### ***Joint venture considerations***

ENVIA is a joint venture, of which the Company is a minority partner. In September 2017, one of the joint venture partners, NRG Energy, exited the joint venture. The Company relies on the continued support and cooperation of its remaining partners to ensure that operations continue at the ENVIA plant. There can be no guarantee of continued support or cooperation from the Company's remaining partners and any withdrawal of support or cooperation from any of the Company's partners could adversely impact the operations at the ENVIA plant, which could adversely affect the Company's business, financial condition, results or future operations.

More specifically, if cash flow or funding for the ENVIA plant falls short of projections and the joint venture requires additional capital, the joint venture partners, of which the Company is one, could collectively decline to provide additional funding, which could have an adverse effect on the plant's operations and financial projections and adversely affect the Company's business, financial condition, results or future operations.

#### ***Impairment disclosed in the Company's interims statement September 2017***

In the Company's interim results for the six months ended 30 June 2017, the Company decided to record an impairment against its ENVIA loan facility receivable based on not reaching a key capacity milestone in September 2017. The plant reached the capacity of 200 barrels per day in October 2017, which enables the reversal, in the 2017 year end results, of the impairment of the loan facility. There is a risk that the Company's auditors will not agree with this reversal in the year-end audit, and the Company and its auditors will continue to evaluate the carrying value of its equity stake and loan facility which could result in further impairments, which could adversely affect the Company's business, financial condition, results or future operations.

## **2. RISKS RELATING TO THE ORDINARY SHARES**

#### ***Value of Ordinary Shares and liquidity***

It is likely that the Company's share price will fluctuate and may not always accurately reflect the underlying value of the Company's business and assets. The price of the Ordinary Shares may go down as well as up and investors may realise less than the original sum invested. The price that investors may realise for their holdings of Ordinary Shares, if and when they are able to do so, may be influenced by a large number of factors, some of which are specific to the Company and others of which are extraneous. Such factors may include the possibility that the market for the Ordinary Shares is less liquid than for other equity securities and that the price of the Ordinary Shares is relatively volatile. The market price of the Ordinary Shares may, in addition to being affected by the Company's actual or forecast operating results, fluctuate significantly as a result of factors beyond the Company's control, including amongst others:

- (a) changes in securities analysts' recommendations or the failure to meet the expectations of securities analysts;
- (b) changes in the performance of the Company's industry as a whole and of the Company's competitors;
- (c) fluctuations in stock market prices and volumes, and general market volatility; and
- (d) the introduction of new legislation affecting the Company's industry.

The Directors are unable to predict when and if substantial numbers of Ordinary Shares will be sold in the open market. Any such sales, or the perception that such sales might occur, could result in a material adverse effect on the market price of the Ordinary Shares.

#### ***Investment on AIM***

Investment in securities traded on AIM is perceived to involve a higher degree of risk and be less liquid than investment in companies whose securities are listed on the Official List in the United Kingdom and traded on the London Stock Exchange's main market for listed securities. An investment in Ordinary Shares traded on AIM may be difficult to realise. AIM has been in existence since 1995 and is a market designed for small and growing companies but its future success and liquidity as a market for Ordinary Shares cannot be guaranteed. Prospective investors should be aware that the value of the Ordinary Shares may go down as well as up and that the market price of the Ordinary Shares may not reflect the underlying value of the Company. Investors may therefore realise less than, or lose all of, their investment.

#### ***Dividends***

There can be no assurance as to the level of future dividends (if any). The declaration, payment and amount of any future dividends of the Company are subject to the discretion of the Shareholders or, in the case of interim dividends, to the discretion of the Directors, and will depend upon, among other things, the Company's earnings, financial position, cash requirements, availability of profits, as well as provisions for relevant laws or generally accepted accounting principles from time to time. For the time being the Company does not pay dividends and this is unlikely to change in the near future.

### **3. RISKS RELATING TO THE CAPITAL RAISING**

#### ***Shareholders will experience dilution in their ownership of the Company***

Regardless of whether an Eligible Shareholder takes up his Open Offer Entitlement, the effect of the Firm Placing will be a reduction of his proportionate ownership and voting interests in the Company. The Firm Placing Shares are not being offered to Eligible Shareholders under the Placing and Open Offer. Shareholders will experience greater dilution in their ownership of, and voting interest in, the Company to the extent they do not subscribe in full for their Open Offer Entitlement. Shareholders who do not take up their Basic Entitlements in full will experience a dilution to their interests of approximately 55.6 per cent. following the Capital Raising (assuming full subscription under the Open Offer). Shareholders who take up their Basic Entitlements in full will experience a dilution to their interests of 42.2 per cent. on the same basis.

#### ***Overseas Shareholders are not eligible to participate in the Placing and Open Offer***

Securities laws of certain jurisdictions restrict the Company's ability to allow participation by Overseas Shareholders in the Placing and Open Offer. In particular, holders of Ordinary Shares who are located in the United States are not be able to exercise their Open Offer Entitlements unless a registration statement under the Securities Act is effective with respect to such rights or an exemption from the registration requirements is available thereunder. The Capital Raising will not be registered under the Securities Act. Securities laws of certain other jurisdictions may restrict the Company's ability to allow participation by Shareholders in such jurisdictions in any future issue of shares carried out by the Company. Shareholders who have a registered address in or who are resident in, or who are citizens of, countries other than the UK are not entitled to participate in the Placing and Open Offer. However, the Company reserves the right, in its absolute discretion provided it is lawful to do so, to permit non-UK resident Shareholders to participate in the Placing and Open Offer on a case by case basis.

## PART III

### TERMS AND CONDITIONS OF THE OPEN OFFER

#### 1. Introduction

As explained in the letter set out in Part I (*Letter from the Chairman of Velocys plc*) of this document, the Company hereby invites Eligible Shareholders to apply, on and subject to the terms and conditions set out in this document and in the Application Form, and subject to the Articles of the Company, for Open Offer Shares at the Placing Price, free from all expenses, payable in cash in full on application. Subject to certain minimum subscriptions set out below, Eligible Shareholders are being given the opportunity to subscribe for their Basic Entitlement at the Placing Price payable in full on application and free of all expenses, *pro rata* to their existing shareholdings.

In addition to their Basic Entitlement, but only where they have exercised their Basic Entitlement in full, Eligible Shareholders are invited to subscribe for such Excess Entitlement at the Placing Price, free from all expenses, payable in cash in full on application as they may choose.

Any Open Offer Shares not issued to an Eligible Shareholder pursuant to their Basic Entitlement will be apportioned between those Eligible Shareholders who have applied for Excess Entitlements at the sole discretion of the Board, provided that no Eligible Shareholder shall be required to subscribe for more Open Offer Shares than he or she has specified on the Application Form or through CREST.

Only Eligible Shareholders, which means only Shareholders who are resident in the UK, will be eligible to make an application for Open Offer Shares. Shareholders domiciled in any other territory, including any other EEA member state, will not be permitted to apply for any Open Offer Shares.

The Open Offer Shares have been conditionally placed with two of the Company's existing Shareholders, Henderson and Lansdowne, subject to clawback to satisfy valid acceptances by Eligible Shareholders under the Open Offer. Henderson and Lansdowne have agreed under the terms of the Placing Letters to subscribe for the maximum number of Open Offer Shares at the Placing Price, subject to clawback, on an equal basis.

The Open Offer has been structured such that the maximum amount that can be raised by the Company under the Open Offer will not exceed the sterling equivalent of €5 million. This maximum limit has been set to ensure that the Company is not required to produce an approved prospectus pursuant to section 85 of FSMA. The issue of a prospectus would considerably increase the costs of the fundraising and it would take much longer to complete, as any such prospectus would require the prior approval of the UKLA. Based on a £:€ exchange rate of 1.1233, this means that the maximum amount which could be raised under the Open Offer is £4,451,171. The Company is proposing to raise £4.4 million (before expenses) by way of the Open Offer.

The Placing Price represents a discount of approximately 63.3 per cent. to the closing mid-market price of 27.25 pence per Existing Ordinary Share on 12 January 2018.

The Open Offer Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing Ordinary Shares and the Firm Placing Shares, including the right to receive all dividends and other distributions declared, made or paid after the date of their issue. The allotment and issue of the Open Offer Shares will be made upon and be subject to the terms and conditions set out in this document and in the Application Form.

Application will be made to the London Stock Exchange for the Open Offer Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Open Offer Shares will commence on AIM at 8.00 a.m. on 1 February 2018.

**If an Eligible Shareholder does not wish to apply for Open Offer Shares he should not complete or return the Application Form.**



A maximum number of 44,057,946 Open Offer Shares will be offered to Eligible Shareholders as part of the Open Offer. In no circumstances will more than this number of Ordinary Shares be issued pursuant to the Open Offer, even if the Open Offer is over subscribed.

## **2. Principal terms and conditions of the Open Offer**

Eligible Shareholders are being given the opportunity to subscribe for their Basic Entitlement at the Placing Price payable in full on application and free of all expenses, *pro rata* to their existing shareholdings on the basis of:

### **3 Open Offer Shares for every 10 Existing Ordinary Shares**

held at the Record Date. Basic Entitlement will be rounded down to the nearest whole number of shares, Fractional entitlements which would have otherwise arisen will not be issued, but will be aggregated and made available under the excess application facility.

Eligible Shareholders are also invited to apply for additional Open Offer Shares in accordance with the Excess Entitlement. Any Open Offer Shares not issued to an Eligible Shareholder pursuant to their Basic Entitlement will be apportioned between those Eligible Shareholders who have applied for Excess Entitlements at the sole discretion of the Board, provided that no Eligible Shareholder shall be required to subscribe for more Open Offer Shares than he or she has specified on the Application Form or through CREST.

Eligible Shareholders may apply for, on and subject to the terms and conditions set out in this document and in the accompanying Application Form, any whole number of Open Offer Shares at the Placing Price subject to the minimum subscription of £100 and thereafter in multiples of £100.

Only Eligible Shareholders, which means only Shareholders who are resident in the UK, will be eligible to make an application for Open Offer Shares. Shareholders domiciled in any other territory, including any other EEA member state, will not be permitted to apply for any Open Offer Shares.

Eligible Shareholders should be aware that the Open Offer is not a rights issue and the Application Form is not a negotiable document and cannot be traded. Applications for Open Offer Shares may only be made by the Eligible Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim. Open Offer Shares not applied for under the Open Offer will not be sold in the market for the benefit of those who do not apply under the Open Offer and Eligible Shareholders who do not apply to take up Open Offer Shares will have no rights under the Open Offer.

The Open Offer Shares have been conditionally placed with two of the Company's existing Shareholders, Henderson and Lansdowne, subject to clawback to satisfy valid acceptances by Eligible Shareholders under the Open Offer. Henderson and Lansdowne have agreed under the terms of the Placing Letters to subscribe for the maximum number of Open Offer Shares at the Placing Price, subject to clawback, on an equal basis.

## **3. Conditions and further terms of the Open Offer**

The Open Offer is conditional on:

- (a) the Resolutions being passed at the General Meeting; and
- (b) the Joint Broker Placing Agreement becoming unconditional in all respects, save for any condition relating to Admission of the Open Offer Shares.

Accordingly, if these conditions are not satisfied or waived (where capable of waiver), the Open Offer will not proceed and any applications made by Eligible Shareholders will be rejected. In such circumstances, application monies will be returned (at the applicant's sole risk), without payment of interest, as soon as practicable thereafter.

No temporary documents of title will be issued in respect of the Open Offer Shares held in uncertificated form. Definitive certificates in respect of Open Offer Shares taken up are expected to be posted to those

Eligible Shareholders who have validly elected to hold their Open Offer Shares in certificated form by 8 February 2018. In respect of those Eligible Shareholders who have validly elected to hold their Open Offer Shares in uncertificated form, the Open Offer Shares are expected to be credited to their stock accounts maintained in CREST by as soon as possible after 8.00 a.m. on 1 February 2018.

All monies received by the Receiving Agent in respect of Open Offer Shares will be credited to a non-interest bearing account by the Receiving Agent.

If for any reason it becomes necessary to adjust the expected timetable as set out in this document, the Company will make an appropriate announcement to a Regulatory Information Service giving details of the revised dates.

#### **4. Procedure for Application and Payment**

The action to be taken by you in respect of the Open Offer depends on whether, at the relevant time, you have an Application Form in respect of the Open Offer or you have Open Offer Entitlements credited to your CREST stock account.

Eligible Shareholders who hold all their Existing Ordinary Shares in certificated form will receive a personalised Application Form. The Application Form will show the number of Ordinary Shares held at the Record Date. It will also show Eligible Shareholders their Basic Entitlement and the total number of Open Offer Shares available under their Open Offer Entitlement that can be allotted in certificated form. Eligible Shareholders who hold all their Existing Ordinary Shares in CREST will be allotted Open Offer Shares in CREST. Eligible Shareholders who hold Existing Ordinary Shares partly in certificated and partly in uncertificated form will be treated as having separate holdings for the purpose of calculating their Basic Entitlement. It will be possible for Eligible Shareholders to deposit Open Offer Entitlements into, and withdraw them from, CREST. Further information on deposit and withdrawal from CREST is set out in paragraph 4(b)(vi) of this Part III (*Terms and Conditions of the Open Offer*).

**Eligible Shareholders who do not wish to apply for any Open Offer Shares under the Open Offer should not complete or return the Application Form or submit a USE message through CREST. Eligible Shareholders who hold their Ordinary Shares through a nominee and who wish to apply for Open Offer Shares must contact their nominee as such Eligible Shareholders will not be able to apply for Open Offer Shares directly using the Application Form.**

(a) ***If you receive an Application Form in respect of your Open Offer Entitlements under the Open Offer***

(i) *General*

Subject as provided in paragraph 7 of this Part III (*Terms and Conditions of the Open Offer*) in relation to Overseas Shareholders, Eligible Non-CREST Shareholders will receive an Application Form. The Application Form shows the number of Existing Ordinary Shares registered in your name on the Open Offer Record Date. It also shows the number of Open Offer Shares for which you may apply pursuant to your Basic Entitlement, (on an initial *pro rata* basis) as shown by the total number of Open Offer Shares allocated to you. You may apply for less than your initial *pro rata* entitlement should you wish to do so. You may also apply for additional Open Offer Shares by completing Box 3 on the Application Form relating to your Excess Entitlement.

Eligible Non-CREST Shareholders may also hold such an Application Form by virtue of a *bona fide* market claim. If the total number of Open Offer Shares applied for by all Eligible Shareholders exceeds 44,057,946 or if the proceeds of the Open Offer would otherwise be €5 million or more, applications for Open Offer Shares will be scaled back at the discretion of the Directors. The instructions and other terms set out in the Application Form forms part of the terms of the Open Offer in relation to Eligible Non-CREST Shareholders.

(ii) *bona fide market claims*

Applications to acquire Open Offer Shares may only be made on the Application Form and may only be made by the Eligible Non-CREST Shareholder named in it or by a person entitled by virtue of a *bona fide* market claim in relation to a purchase of Ordinary Shares through the market prior to the Ex-Entitlement Date. Application Forms may not be assigned, transferred or split, except to satisfy *bona fide* market claims up to 3.00 p.m. on 26 January 2018. The Application Form will not be a negotiable document and will not be separately tradeable.

Shareholders should note that Excess Entitlements will not be subject to Euroclear's market claims process. Qualifying CREST Shareholders claiming Excess Entitlements by virtue of a *bona fide* market claim are advised to contact the Receiving Agent to request a credit of the appropriate number of entitlements to their CREST account.

An Eligible Non-CREST Shareholder who has sold or otherwise transferred all or part of his holding of Ordinary Shares prior to the Ex-Entitlement Date, should consult his broker or other professional adviser as soon as possible, as the invitation to acquire Open Offer Shares under the Open Offer may be a benefit which may be claimed by the transferee. Eligible Non-CREST Shareholders who have sold all or part of their registered holdings should, if the market claim is to be settled outside CREST, complete Box 11 on the Application Form and immediately send it to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. The Application Form should not, however be forwarded to or transmitted to any territory outside the United Kingdom. If the market claim is to be settled outside CREST, the beneficiary of the claim should follow the procedures set out in the Application Form. If the market claim is to be settled in CREST, the beneficiary of the claim should follow the procedure set out in paragraph 4(b)(ii) of this Part III (*Terms and Conditions of the Open Offer*).

(iii) *Application procedures*

Eligible Non-CREST Shareholders wishing to apply to acquire Open Offer Shares should complete the Application Form in accordance with the instructions printed on it. If the total number of Open Offer Shares applied for by all Eligible Shareholders exceeds 44,057,946 or if the proceeds of the Open Offer would otherwise be €5 million or more, applications will be scaled back at the Directors discretion.

Completed Application Forms should be posted in the pre-paid envelope accompanying the Application Form or returned by post or by hand (during normal business hours only) to the Receiving Agent, Link Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU (who will act as Receiving Agent in relation to the Open Offer) so as to be received by the Receiving Agent by no later than 11:00 a.m. on 30 January 2018, after which time Application Forms will not be valid. Eligible Non-CREST Shareholders should note that applications, once made, will be irrevocable and receipt thereof will not be acknowledged. Eligible Shareholders are recommended to allow at least four working days for delivery if posted by first class post. If you have any questions relating to this document, and the completion and return of the Application Form, please telephone Link Asset Services on +44 (0)371 664 0321. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00 a.m. – 5.30 p.m., Monday to Friday excluding public holidays in England and Wales. Please note that Link Asset Services cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes.

**All payments must be in pounds sterling and made by cheque or bankers' draft and should be made payable to "Link Market Services Ltd re: Velocys PLC a/c – Acceptance A/C" and crossed "A/C payee only".** Cheques or banker's drafts must be drawn in sterling on a bank or building society in the UK which is either a member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or

which has arranged for its cheques and banker's drafts to be cleared through facilities provided by any of those companies or committees. Such cheques or banker's drafts must bear the appropriate sort code in the top right-hand corner and must be for the full amount payable on the application. **No application will be considered unless these requirements are fulfilled. Eurocheques will not be accepted.**

Cheques should be drawn on the personal account to which the Eligible Shareholder has sole or joint title to the funds. Third party cheques may not be accepted with the exception of bankers' drafts/building society cheques where the bank/building society has confirmed the name of the account holder on the back of the draft/cheque and has added their stamp. The account name must be the same as that of the applicant.

Cheques and bankers' drafts will be presented for payment upon receipt and it is a term of the Open Offer that cheques will be honoured on first presentation. If cheques or bankers' drafts are presented for payment before the conditions of the Open Offer are fulfilled, the application monies will be kept in a separate non-interest bearing bank account pending fulfilment of such conditions. If all the conditions of the Open Offer have not been fulfilled or (where appropriate) waived by 31 January 2018 (or such later date as the Company and its advisers may agree but in any event not later than 7 February 2018), application monies will be returned, without interest, by crossed cheque in favour of the applicant(s) (at the applicant's risk) through the post within 14 days after that date.

The Company may in its sole discretion, but shall not be obliged to, treat an Application Form as valid and binding on the person by whom or on whose behalf it is lodged, even if not completed in accordance with the relevant instructions or not accompanied by a valid power of attorney where required, or if it otherwise does not strictly comply with the terms and conditions of the Open Offer. The Company further reserves the right (but shall not be obliged) to accept either:

- A. Application Forms received after 11.00 a.m. on 30 January 2018; or
- B. applications in respect of which remittances are received before 11.00 a.m. on 30 January 2018 from authorised persons (as defined in FSMA) specifying the Open Offer Shares applied for and undertaking to lodge the Application Form in due course but, in any event, within two Business Days.

Multiple applications will not be accepted. All documents and remittances sent by post by or to an applicant (or as the applicant may direct) will be sent at the applicant's own risk.

If Open Offer Shares have already been allotted to an Eligible Non-CREST Shareholder and such Eligible Non-CREST Shareholder's cheque or banker's draft is not honoured upon first presentation or such Eligible Non-CREST Shareholder's application is subsequently otherwise deemed to be invalid, Link Asset Services shall be authorised (in its absolute discretion as to manner, timing and terms) to make arrangements, on behalf of the Company, for the sale of such Eligible Non-CREST Shareholder's Open Offer Shares and for the proceeds of sale (which for these purposes shall be deemed to be payments in respect of successful applications) to be paid to and retained by the Company. None of Link Asset Services, Joint Brokers, or the Company nor any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by such Eligible Non-CREST Shareholders.

The instructions, notes and other terms set out in the Application Form constitute part of the terms of the Open Offer.

All enquiries in connection with the procedure for application and completion of the Application Form should be addressed to the Receiving Agent, Link Asset Services, Corporate Actions, The Registry 34 Beckenham Road, Beckenham, Kent, BR3 4TU or you can contact the Receiving Agent Link Asset Services on +44 (0)371 664 0321. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be

charged at the applicable international rate. The helpline is open between 9.00 a.m. – 5.30 p.m., Monday to Friday excluding public holidays in England and Wales. Please note that Link Asset Services cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes.

(b) ***If you have your Basic Entitlement and Excess Entitlement credited to your stock account in CREST in respect of your entitlement under the Open Offer***

(i) *General*

Each Eligible CREST Shareholder will receive a credit to his stock account in CREST in respect of his Basic Entitlement and also in respect of his Excess Entitlement (equal in size to the maximum number of Open Offer Shares available under the Open Offer less an amount equal to the Eligible Shareholder's Basic Entitlement). The CREST stock account to be credited will be an account under the participant ID and member account ID that apply to the Ordinary Shares held on the Record Date by the Eligible CREST Shareholder in respect of whom the Open Offer Entitlements have been allocated. If for any reason the Open Offer Entitlements cannot be admitted to CREST by, or the stock accounts of Eligible CREST Shareholders cannot be credited by, 5.00 p.m. on 16 January 2018, or such later time and/or date as the Company and Joint Brokers may decide, an Application Form will be sent to each Eligible CREST Shareholder in substitution for the Open Offer Entitlements which should have been credited to his stock account in CREST. In these circumstances the expected timetable as set out in this document will be adjusted as appropriate and the provisions of this document applicable to Eligible Non-CREST Shareholders with Application Forms will apply to Eligible CREST Shareholders who receive such Application Forms.

CREST members who wish to apply to acquire some or all of their entitlements to Open Offer Shares should refer to the CREST Manual for further information on the CREST procedures referred to below. Should you need advice with regard to these procedures, please contact the Receiving Agent Link Asset Services on +44 (0)371 664 0321. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00 a.m. – 5.30 p.m., Monday to Friday excluding public holidays in England and Wales. Please note that Link Asset Services cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes.

(ii) *Market claims*

Although Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of Open Offer Entitlements may only be made by the Eligible Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim. Transactions identified by the CREST Claims Processing Unit as "cum" the Open Offer Entitlement will generate an appropriate market claim transaction and the relevant Open Offer Entitlement(s) will thereafter be transferred accordingly.

Shareholders should note that Excess Entitlements will not be subject to Euroclear's market claims process. Qualifying CREST Shareholders claiming Excess Entitlements by virtue of a *bona fide* market claim are advised to contact the Receiving Agent to request a credit of the appropriate number of entitlements to their CREST account.

(iii) *Unmatched Stock Event ("USE") instructions*

Eligible CREST Shareholders who are CREST members and who want to apply for Open Offer Shares in respect of all or some of their Open Offer Entitlements in CREST must send (or, if they are CREST sponsored members, procure that their CREST sponsor sends) an USE instruction to Euroclear which, on its settlement, will have the following effect: (i) the crediting of a stock account of the Receiving Agent under the participant ID and member account ID specified below, with a number of Open Offer Entitlements corresponding to the number of

Open Offer Shares applied for; and (ii) the creation of a CREST payment, in accordance with the CREST payment arrangements in favour of the payment bank of the Receiving Agent in respect of the amount specified in the USE instruction which must be the full amount payable on application for the number of Open Offer Shares referred to in (i) above.

(iv) *Content of USE instruction in respect of Basic Entitlements*

The USE instruction must be properly authenticated in accordance with Euroclear's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- A. the number of Open Offer Shares for which application is being made and the number of Basic Entitlements being delivered to the Receiving Agent;
- B. the ISIN of the Basic Entitlement. This is GB00BFNX4971;
- C. the CREST participant ID of the accepting CREST member;
- D. the CREST member account ID of the accepting CREST member from which the Basic Entitlements are to be debited;
- E. the participant ID of the Receiving Agent in its capacity as a CREST receiving agent. This is 7RA33;
- F. the member account ID of the Receiving Agent in its capacity as a CREST receiving agent. This is 29440VEL;
- G. the amount payable by means of a CREST payment on settlement of the USE instruction. This must be the full amount payable on application for the number of Open Offer Shares referred to in (i) above;
- H. the intended settlement date. This must be on or before 11:00 a.m. on 30 January 2018; and
- I. the Corporate Action Number for the Open Offer. This will be available by viewing the relevant corporate action details in CREST.

In order for an application under the Open Offer to be valid, the USE instruction must comply with the requirements as to authentication and contents set out above and must settle on or before 11:00 a.m. on 30 January 2018. In order to assist prompt settlement of the USE instruction, CREST members (or their sponsors, where applicable) may consider adding the following non-mandatory fields to the USE instruction:

1. a contact name and telephone number (in the free format shared note field); and
2. a priority of at least 80.

CREST members and, in the case of CREST sponsored members, their CREST sponsors, should note that the last time at which a USE instruction may settle on 30 January 2018 in order to be valid is 11:00 a.m. on that day.

In the event that the Placing and Open Offer do not become unconditional by 8.00 a.m. on 1 February 2018 or such later time and date as the Company and Joint Brokers determine (being no later than 8.00 a.m. on 15 February 2018), the Open Offer will lapse, the Open Offer Entitlements admitted to CREST will be disabled and the Receiving Agent will refund the amount paid by a Eligible CREST Shareholder by way of a CREST payment, without interest, as soon as practicable, but within 14 days, thereafter.

(v) *Content of USE instruction in respect of Excess Entitlements*

The USE instruction must be properly authenticated in accordance with Euroclear's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- A. the number of Excess Entitlements for which application is being made;
- B. the ISIN of the Excess Entitlements. This is GB00BFNX4B95;
- C. the CREST participant ID of the accepting CREST member;
- D. the CREST member account ID of the accepting CREST member from which the Excess Entitlements are to be debited;
- E. the participant ID of the Receiving Agent in its capacity as a CREST receiving agent. This is 7RA33;
- F. the member account ID of the Receiving Agent in its capacity as a CREST receiving agent. This is 29440VEL;
- G. the amount payable by means of a CREST payment on settlement of the USE instruction. This must be the full amount payable on application for the number of Excess Entitlements referred to in (i) above;
- H. the intended settlement date. This must be on or before 11:00 a.m. on 30 January 2018; and
- I. the Corporate Action Number for the Open Offer. This will be available by viewing the relevant corporate action details in CREST.

In order for an application under the Open Offer to be valid, the USE instruction must comply with the requirements as to authentication and contents set out above and must settle on or before 11.00 a.m. on 30 January 2018. In order to assist prompt settlement of the USE instruction, CREST members (or their sponsors, where applicable) may consider adding the following non-mandatory fields to the USE instruction:

1. a contact name and telephone number (in the free format shared note field); and
2. a priority of at least 80.

CREST members and, in the case of CREST sponsored members, their CREST sponsors, should note that the last time at which a USE instruction may settle on 30 January 2018 in order to be valid is 11.00 a.m. on that day.

In the event that the Placing and Open Offer do not become unconditional by 8.00 a.m. on 1 February 2018 or such later time and date as the Company and Joint Brokers determine (being no later than 8.00 a.m. on 15 February 2018), the Open Offer will lapse, the Open Offer Entitlements admitted to CREST will be disabled and the Receiving Agent will refund the amount paid by a Eligible CREST Shareholder by way of a CREST payment, without interest, within 14 days thereafter.

(vi) *Deposit of Open Offer Entitlements into, and withdrawal from, CREST*

An Eligible Non-CREST Shareholder's entitlements to apply for Open Offer Shares under the Open Offer set out in his Application Form may be deposited into CREST (either into the account of the Eligible Shareholder named in the Application Form or into the name of a person entitled by virtue of a *bona fide* market claim), provided that such Eligible Non-CREST Shareholder is also a CREST member. Similarly, Open Offer Entitlements held in CREST may be withdrawn from CREST so that the entitlements under the Open Offer are reflected in an Application Form. Normal CREST procedures (including timings) apply in relation to any such

deposit or withdrawal, subject (in the case of a deposit into CREST) to the provisions of the Application Form. A holder of an Application Form who is proposing to deposit the entitlements set out in such form into CREST is recommended to ensure that the deposit procedures are implemented in sufficient time to enable a person holding or acquiring such Open Offer Entitlements following their deposit into CREST, to take all necessary steps in connection with taking up such entitlements prior to 3.00 p.m. on 25 January 2018. A holder of an Application Form who deposits his Open Offer Entitlement into his CREST account, will receive a credit to such account for his Open Offer Entitlement which will be managed by the Registrars.

In particular, having regard to normal processing times in CREST and on the part of the Receiving Agent, the recommended latest time for depositing an Application Form with the CREST Courier and Sorting Service, where the person entitled wishes to hold the entitlement under the Open Offer set out in such Application Form as Open Offer Entitlements, is 3.00 p.m. on 25 January 2018 and the recommended latest time for receipt by Euroclear of a dematerialised instruction requesting withdrawal of Open Offer Entitlements from CREST is 4.30 p.m. on 24 January 2018 in either case so as to enable the person acquiring or (as appropriate) holding the Open Offer Entitlements following the deposit or withdrawal (whether as shown in an Application Form or held in CREST) to take all necessary steps in connection with applying in respect of the Open Offer Entitlements prior to 11.00 a.m. on 30 January 2018. Delivery of an Application Form with the CREST deposit form duly completed whether in respect of a deposit into the account of the Eligible Shareholder named in the Application Form or into the name of another person, shall constitute a representation and warranty to the Company and the Receiving Agent by the relevant CREST member(s) that it/they is/are not in breach of the provisions of the notes under the paragraph headed "Instructions for depositing entitlements under the Open Offer into CREST" on page 3 of the Application Form, and a declaration to the Company and the Receiving Agent from the relevant CREST member(s) that they are not a citizen or resident (of any territory other than the United Kingdom, where such deposit is made by a beneficiary of a market claim, a representation and warranty that the relevant CREST member(s) is/are entitled to apply under the Open Offer by virtue of a *bona fide* market claim.

(vii) *Validity of application*

A USE instruction complying with the requirements as to authentication and contents set out above which settles by no later than 11.00 a.m. on 30 January 2018 will constitute a valid application under the Open Offer.

(viii) *CREST procedures and timings*

CREST members and (where applicable) their CREST sponsors should note that Euroclear does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of a USE instruction and its settlement in connection with the Open Offer. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST sponsored member, to procure that his CREST sponsor takes) such action as shall be necessary to ensure that a valid application is made as stated above by 11.00 a.m. on 30 January 2018. In this connection CREST members and (where applicable) their CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(ix) *Incorrect or incomplete applications*

If a USE instruction includes a CREST payment for an incorrect sum, the Company, through the Receiving Agent, reserves the right:

- A. to reject the application in full and refund the payment to the CREST member in question (without interest);



- B. in the case that an insufficient sum is paid, to treat the application as a valid application for such lesser whole number of Open Offer Shares as would be able to be applied for with that payment at the Placing Price, refunding any unutilised sum to the CREST member in question (without interest); and
  - C. in the case that an excess sum is paid, to treat the application as a valid application for all the Open Offer Shares referred to in the USE instruction, refunding any unutilised sum to the CREST member in question (without interest).
- (x) *Company's discretion as to the rejection and validity of applications*
- The Company may in its sole discretion:
- A. treat as valid (and binding on the CREST member concerned) an application which does not comply in all respects with the requirements as to validity set out or referred to in this Part III (*Terms and Conditions of the Open Offer*);
  - B. accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor as constituting a valid application in substitution for or in addition to a USE instruction and subject to such further terms and conditions as the Company may determine;
  - C. treat a properly authenticated dematerialised instruction (in this sub-paragraph the "first instruction") as not constituting a valid application if, at the time at which the Registrar receives a properly authenticated dematerialised instruction giving details of the first instruction or thereafter, either the Company or the Receiving Agent has received actual notice from Euroclear of any of the matters specified in Regulation 35(5)(a) of the CREST Regulations in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and
  - D. accept an alternative instruction or notification from a CREST member or CREST sponsored member or (where applicable) a CREST sponsor, or extend the time for settlement of a USE instruction or any alternative instruction or notification, in the event that, for reasons or due to circumstances outside the control of any CREST member or CREST sponsored member or (where applicable) CREST sponsor, the CREST member or CREST sponsored member is unable validly to apply for Open Offer Shares by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST) or on the part of the facilities and/or systems operated by the Receiving Agent in connection with CREST.
- (xi) *Lapse of the Open Offer*

In the event that the Placing and Open Offer do not become unconditional by 8.00 a.m. on 1 February 2018 or such later time and date as the Company, Numis and Canaccord may agree (being no later than 15 February 2018), the Placing and Open Offer will lapse, the Open Offer Entitlements admitted to CREST will be disabled and the Receiving Agent will refund the amount paid by a Eligible CREST Shareholder by way of a CREST payment, without interest, within 14 days thereafter.

## 5. Warranties

An Eligible Shareholder who makes or is treated as making a valid application or Open Offer Shares:

- (a) represents and warrants that he has the right, power and authority, and has taken all action necessary, to make the application under the Open Offer and to execute, deliver and exercise his rights, and perform his obligations, under any contracts resulting therefrom and that he is not a person otherwise prohibited or restricted by legal or regulatory requirements from applying for Open Offer Shares or acting on behalf of any such person on a non-discretionary basis;

- (b) agrees to pay the amount payable on application in accordance with the payment procedures described in this Part III (*Terms and Conditions of the Open Offer*);
- (c) agrees that all applications and contracts resulting therefrom under the Open Offer shall be governed by, and construed in accordance with, the laws of England;
- (d) confirms that in making the application he is not relying on any information or representation in relation to the Company other than that contained in this document, and the applicant accordingly agrees that no person responsible solely or jointly for this document or any part thereof, or involved in the preparation thereof, shall have any liability for any such information or representation not so contained and further agrees that, having had the opportunity to read this document, he will be deemed to have had notice of all the information in relation to the Company contained in this document;
- (e) represents and warrants that he is the Eligible Shareholder originally entitled to relevant Open Offer Entitlements or that he has received such Open Offer Entitlements by virtue of a *bona fide* market claim;
- (f) represents and warrants that in relation to each and every Open Offer Entitlement that he has received from a person other than the Company, he is entitled to apply under the Open Offer in relation to such Open Offer Entitlements by virtue of a *bona fide* market claim;
- (g) requests that the New Ordinary Shares to which he will become entitled shall be issued to him on the terms set out in this document, subject to the memorandum of association and articles of association of the Company;
- (h) represents and warrants that they are resident in the United Kingdom and not resident of any other territory and they will not offer to sell, directly or indirectly, any of the Open Offer Shares (or any rights in respect of such Open Offer Shares) in any such other territory or for the benefit of a resident of any other territory other than the United Kingdom. In addition, completion of an Application Form will constitute a representation and warranty that the person in whose name registration is applied for is a resident of the United Kingdom and not resident in any other territory and that they do not hold and have not acquired the Open Offer Shares comprised in the Application Form for the account or benefit of a resident of any such other territory or with a view to the offer, sale or delivery, directly or indirectly, of any Open Offer Shares or any rights in respect of such Open Offer Shares in any territory other than the United Kingdom or to a resident of any other territory;
- (i) represents and warrants that he is not, and nor is he applying as nominee or agent for, a person who is or may be liable to notify and account for tax under the Stamp Duty Reserve Tax Regulations 1986 at any of the increased rates referred to in sections 67, 70, 93 or 96 (depository receipts and clearance services) of the Finance Act 1986;
- (j) confirms that in making the application he is not relying and has not relied on the Joint Brokers or any person affiliated with the Joint Brokers in connection with any investigation of the accuracy of any information contained in this document or his investment decision; and
- (k) represents and warrants that that acceptance by them of their application for subscription under the Open Offer will not result in them and/or persons acting in concert with them obtaining an interest in greater than 29.9 per cent. of the total number of Ordinary Shares in issue following the Open Offer.

## **6. Money Laundering Regulations**

To ensure compliance with the Money Laundering Regulations 2017 (the “Regulations”), it is a term of the Open Offer that the Registrars may, at their absolute discretion, require verification of identity from any person completing an Application Form or sending a USE message through CREST (the “Applicant”) for more than a sterling equivalent of €15,000 and, without prejudice to the generality of the foregoing, in particular any person who either (i) tenders payment by way of a cheque or banker’s draft drawn on an

account in the name of any person or persons other than the Applicant or (ii) appears to Link Registrars to be acting on behalf of some other person.

This may involve verification of the identity of any person on whose behalf the Applicant appears to be acting.

Lodging of an Application Form and sending the USE message through CREST with the appropriate remittance constitutes a warranty by the Applicant that the Regulations will not be breached by the acceptance of the remittance and an undertaking to provide such evidence of identity at the time of lodging an Application Form or, in the absolute discretion of the Company, within a reasonable time thereafter (in each case to be determined at the absolute discretion of the Company and the Registrars) as may be required to ensure compliance with the Regulations.

If satisfactory evidence of identity has not been received by Link Asset Services Limited within a reasonable period of time, then the Application Form or USE message through CREST in question may be rejected, in which event the application will not proceed any further and the application monies (without interest) will be returned to the bank account on which the cheque was drawn at the Applicant's own risk.

Where possible Applicants should make payment by their own cheque. If a bankers' draft or building society cheque is used, the Applicant should:

- (a) write his/her name and address on the back of the draft or cheque and, in the case of an individual, record his/her date of birth against his/her name; and
- (b) ask the bank or building society to endorse on the reverse of the draft or cheque the full name and account number of the person whose account number is being debited and stamp such endorsement.

The above information is provided by way of guidance to reduce the likelihood of difficulties, delays and potential rejection of an Application Form (but without limiting Link Registrars Limited's right to require verification of identity as indicated above).

## **7. Overseas Shareholders**

Only Eligible Shareholders, which means only Shareholders that are resident and domiciled in the United Kingdom, will be eligible to make an application for Open Offer Shares, and in particular no person receiving a copy of this document or the Application Form in any other territory may treat the same as constituting an offer or invitation to him/her nor should he/she in any event complete the Application Form. Accordingly, persons receiving this document and Application Form should not send the same into any other territory, and any copy of this document or the Application Form which is received in any such jurisdiction is sent for information only, is confidential and should not be copied or distributed.

The Company reserves the right to treat as invalid any application or purported application to subscribe for new Ordinary Shares pursuant to the Open Offer which appears to the Company or its agent to have been executed, effected or dispatched in a manner which may involve a breach of the securities laws or regulations of any jurisdiction or which does not include the warranties set out in the Application Form.

**The Open Offer Shares have not been and are not intended to be registered or qualified for sale under in any jurisdiction other than the United Kingdom. Accordingly, unless otherwise determined by the Company and effected by the Company in a lawful manner, the Application Form will not be sent to Shareholders with registered addresses in any other jurisdiction other than the United Kingdom since to do so would require compliance with the relevant securities laws of that jurisdiction. Applications from any such person will be deemed to be invalid. If an Application Form is received by any Shareholder whose registered address is elsewhere but who is in fact a resident or domiciled in a territory other than the United Kingdom, he/she should not seek to take up his/her allocation.**

## **8. Admission, Settlement and Dealings**

Application will be made for the admission of the New Ordinary Shares to trading on AIM. The result of the Placing and Open Offer is expected to be announced on or about 31 January 2018 and, subject to the Open

Offer becoming unconditional in all respects, trading in the Open Offer Shares is anticipated to commence on AIM for normal settlement on 1 February 2018.

Application will be made for the New Ordinary Shares to be admitted to CREST with effect from AIM Admission and applicants for Open Offer Shares will be able to hold their Open Offer Shares in certificated or uncertificated form.

Notwithstanding any other provision of this document or of the Application Form, the Company reserves the right to allot and/or issue any Open Offer Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST), or on the part of the facilities and/or systems operated by the Company's registrars in connection with CREST. This right may also be exercised if the correct details in respect of *bona fide* market claims (such as the Member Account ID and Participation ID details) are not provided as requested on the Application Form.

For more information as to the procedure for application in each case, Eligible non-CREST Shareholders are referred to the Application Form.

# VELOCYS PLC

*(Incorporated and registered in England and Wales with registered no. 5712187)*

## NOTICE OF GENERAL MEETING

**Notice is hereby given that a General Meeting of Velocys PLC (the “Company”) will be held at the offices of Mayer Brown International LLP, 201 Bishopsgate, London EC2M 3AF on 31 January 2018 at 10.00 a.m. for the following purposes:**

### ORDINARY RESOLUTION

To consider, and if thought fit, pass Resolution 1 as an ordinary resolution:

1. THAT, the directors of the Company be generally and unconditionally authorised for the purposes of s551 of the Companies Act 2006 (the “Act”) to allot ordinary shares in the Company up to a maximum aggregate nominal amount of £1,836,630 pursuant to a firm placing and placing and open offer of ordinary shares in the capital of the Company, as further described in the circular of the Company dated 15 January 2018 (“**Capital Raising**”), to such persons and at such times and upon such conditions as the directors may determine, such authority to expire at the earlier of the conclusion of the next annual general meeting of the Company after the passing of this resolution and 30 April 2019 save that the Company may before that expiry make an offer or agreement which would or might require shares to be allotted after that expiry and the directors of the Company may allot shares in pursuance of such an offer or agreement as if the authority conferred by this resolution had not expired.

This authority is in addition to the authority conferred on the directors pursuant to s551 of the Act at the Company’s annual general meeting held on 22 June 2017.

### SPECIAL RESOLUTION

To consider, and if thought fit, pass Resolution 2 as a special resolution:

2. THAT, subject to the passing of Resolution 1 above, the directors of the Company be empowered pursuant to s570(1) of the Act to allot equity securities pursuant to the authority conferred by Resolution 1 above as if s561(1) of the Act did not apply to that allotment, provided that this power shall be limited to the allotment of equity securities for cash up to the maximum nominal amount of £1,836,630 to persons applying for ordinary shares in connection with the Capital Raising and shall expire at the earlier of the conclusion of the next annual general meeting of the Company to be held after the date of the passing of this resolution and 30 April 2019 save that the Company may before that expiry make an offer or agreement which would or might require equity securities to be allotted after that expiry and the directors of the Company may allot equity securities in pursuance of that offer or agreement as if the power conferred by this resolution had not expired.

This authority is in addition to the authority conferred on the directors pursuant to s570(1) of the Act at the Company’s annual general meeting held on 22 June 2017.

For the purposes of this resolution, the expression “**equity securities**” and references to “**allotment of equity securities**” respectively have the meanings given to them in s560 of the Act.

By Order of the Board

**Jeremy Gorman**  
*Company Secretary*

15 January 2018

*Registered Office*  
Harwell Innovation Centre  
173 Curie Avenue  
Harwell  
Oxfordshire  
OX11 0QG

**NOTES:**

- (a) Only those shareholders entered on the relevant register of members (the “**Register**”) for certificated or uncertificated shares of the Company (as the case may be) at close of business on 29 January 2018 (the “**Specified Time**”) will be entitled to attend or vote at the General Meeting in respect of the number of shares registered in their name at the time. Changes to entries on the Register after the Specified Time will be disregarded in determining the rights of any person to attend or vote at the meeting. Should the meeting be adjourned to a time not more than 48 hours after the Specified Time, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. Should the meeting be adjourned for a longer period, then to be so entitled, members must be entered on the Register at the time which is 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in the notice.
- (b) Any member may appoint a proxy to attend, speak and vote on his/her behalf. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares of the member, but must attend the meeting in person. A proxy need not be a member. Forms of Proxy should be lodged with the Company’s Registrar or submitted not later than 48 hours before the time for which the meeting is convened. Completion of the appropriate Form of Proxy does not prevent a member from attending and voting in person if he/she is entitled to do so and so wishes.
- (c) As at 12 January 2018 (being the last working day prior to the publication of this notice), the Company’s issued share capital consisted of 146,859,819 Ordinary Shares, carrying one vote each. So, the total voting rights in the Company as at that date are 146,859,819.
- (d) Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
- (e) Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no answer needs to be given if to do so would interfere unduly with the business of the meeting or involve the disclosure of confidential information or if the answer has already been given on a website in the form of an answer to a question or, finally, if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.



