

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 on 8 August 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, 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. 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, you are advised to consult your stockbroker, bank or other agent through whom the sale or transfer was effected.

The Company's Ordinary Shares are currently admitted to trading on AIM. Applications will be made to the London Stock Exchange for the Placing Shares to be admitted to trading on AIM. It is expected that First Admission will become effective, and dealings for normal settlement in the First Tranche Placing Shares will commence, at 8.00 a.m. on 30 July 2018. Subject to the passing of the Placing Resolutions, it is expected that Second Admission will become effective, and dealings for normal settlement in the Second Tranche Placing Shares will commence, at 8.00 a.m. on 9 August 2018. The Placing Shares will not be admitted to trading on any other investment exchange.

VELOCYS PLC

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



Placing of 60,000,000 new Ordinary Shares at a price of 10 pence per share

Notice of General Meeting

This document should be read in conjunction with the accompanying Form of Proxy and the Notice of General Meeting set out at the end of this document. 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 11 to 19 of this document. This letter explains the background to, and reasons for, the Placing and contains a recommendation that you vote in favour of the Resolutions to be proposed at the General Meeting.

The Notice of General Meeting to be held at 10.00 a.m. on 8 August 2018 at the offices of Mayer Brown International LLP, 201 Bishopsgate, London EC2M 3AF is set out on pages 29 to 30 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.**

This document is being sent to all Shareholders 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 Placing 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 Placing 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 Placing. The Placing 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.

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 Placing 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 Placing 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.

Turner Pope Investments (TPI) 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. TPI is acting exclusively for the Company and no one else in connection with the Placing 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, Canaccord nor TPI 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, Canaccord or TPI 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) 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

Publication and posting of Circular and Form of Proxy	23 July 2018
Admission and dealings in the First Tranche Placing Shares to commence on AIM	30 July 2018
CREST accounts credited with First Tranche Placing Shares	30 July 2018
Definitive share certificates for the First Tranche Placing Shares to be dispatched (if required)	13 August 2018
Last time and date for receipt of Form of Proxy	10 a.m. on 6 August 2018
General Meeting	10 a.m. on 8 August 2018
Announcement of results of General Meeting	8 August 2018
Admission and dealings in the Second Tranche Placing Shares to commence on AIM	9 August 2018
CREST accounts credited with Second Tranche Placing Shares	9 August 2018
Definitive share certificates for the Second Tranche Placing Shares to be dispatched (if required)	23 August 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 Placing 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 PLACING STATISTICS

Number of Existing Ordinary Shares	330,322,765
Number of First Tranche Placing Shares to be issued under the Placing	30,000,000
Number of Second Tranche Placing Shares to be issued under the Placing	30,000,000
Placing Price of Placing Shares	10p
Market capitalisation of the Company on First Admission at the Placing Price*	£37,766,471
Market capitalisation of the Company on Second Admission at the Placing Price*	£40,766,471
Approximate percentage of the Enlarged Share Capital represented by the First Tranche Placing Shares*	7.7%
Approximate percentage of the Enlarged Share Capital represented by the Second Tranche Placing Shares*	7.7%
Number of Ordinary Shares in issue immediately following First Admission*	360,322,765
Number of Ordinary Shares in issue immediately following Second Admission*	390,322,765
Gross proceeds of the Placing	£6,000,000
ISIN of the Ordinary Shares (and Placing Shares)	GB00B11SZ269

**Information given in relation to the ordinary share capital of the Company and the proceeds of the Placing immediately following First Admission or Second Admission (as applicable) have been calculated on the basis that the Placing is fully subscribed and comprises 30,000,000 First Tranche Placing Shares and 30,000,000 Second Tranche Placing Shares at a price of 10 pence per share, raising £6 million (before expenses) and that no options, warrants or convertible loan notes are exercised.*

DIRECTORS, SECRETARY AND ADVISERS

Directors	Dr Pierre Jungels, CBE, <i>Chairman</i> David Pummell, <i>Chief Executive Officer</i> Dr Paul Schubert, <i>Chief Operating Officer</i> Andrew Morris, <i>Non-executive Director</i> Sandy Shaw, <i>Non-executive Director</i>
Registered and Head Office	Harwell Innovation Centre 173 Curie Avenue Harwell Oxfordshire OX11 0QG
Company Secretary	Jeremy Gorman
Nominated Adviser and Joint Broker to the Company	Numis Securities Limited The LSE Building 10 Paternoster Square London EC4M 7LT
Joint Brokers to the Company	Turner Pope Investments (TPI) Ltd 6th Floor, Becket House 36 Old Jewry London EC2R 8DD Canaccord Genuity Limited 88 Wood Street London EC2V 7QR
Auditors	PricewaterhouseCoopers LLP One Reading Central 23 Forbury Road Reading RG1 3JH
Solicitors to the Company in respect of the Placing	Mayer Brown International LLP 201 Bishopsgate London EC2M 3AF
Solicitors to the Nominated Adviser and Joint Brokers	Dorsey & Whitney (Europe) LLP 199 Bishopsgate London EC2M 3UT
AIM Registrar	Link Market Services Limited 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
“AIM”	the market of that name operated by London Stock Exchange
“AIM Rules”	the AIM Rules for Companies, which sets out the rules and responsibilities for companies listed on AIM, as amended from time to time
“Articles”	the articles of association of the Company (as amended from time to time)
“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 private limited company incorporated in England and Wales, under registered number 01774003, and having its registered office at 88 Wood Street, London EC2V 7QR
“Company” or “Velocys”	Velocys plc, a public limited company incorporated in England and 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)
“Disclosure Guidance and Transparency Rules”	the Disclosure Guidance and Transparency Rules issued by the Financial Conduct Authority
“Enlarged Share Capital”	the issued Ordinary Share capital of the Company immediately following Second Admission comprising the Existing Ordinary Shares and the Placing Shares assuming full subscription under the Placing and assuming no exercise of any warrants, options or convertible loan notes
“ENVIA”	ENVIA Energy, LLC, a joint venture between Waste Management, Inc., Ventech Projects Investments, LLC and the Company
“Executive Committee”	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)
“Existing Ordinary Shares”	the 330,322,765 Ordinary Shares in issue as at the date of this document being the entire issued share capital of the Company prior to the Placing
“First Admission”	admission of the First Tranche Placing Shares to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules

“First Tranche Placing Shares”	30,000,000 new Ordinary Shares to be issued pursuant to the Placing
“Form of Proxy”	the accompanying form of proxy for use by Shareholders in relation to the General Meeting
“FSMA”	the Financial Services and Markets Act 2000 (as amended)
“General Meeting”	the general meeting of the Company to be held at 10 a.m. on 8 August 2018 at the offices of Mayer Brown International LLP, 201 Bishopsgate, London, EC2M 3AF, notice of which is set out at the end of this document
“Joint Brokers”	Numis, Canaccord and TPI
“London Stock Exchange”	London Stock Exchange plc
“Notice of General Meeting”	the notice of General Meeting, set out at the end of this document
“Numis”	Numis Securities Limited, a private limited company incorporated in England and Wales under registered number 2285918 and having its registered office at 10 Paternoster Square, London EC4M 7LT
“Numis/Canaccord Placing Agreement”	the conditional agreement dated 23 July 2018 relating to the Placing, between the Company, Numis and Canaccord
“Official List”	the Official List of the UKLA
“Ordinary Shares”	ordinary shares of 1 penny each in the capital of the Company
“Placing”	the proposed conditional, non-pre-emptive placing of the Placing Shares
“Placing Agreements”	the Numis/Canaccord Placing Agreement and the TPI Placing Agreement
“Placing Price”	10 pence per Placing Share
“Placing Resolutions”	Resolution 1 and Resolution 2 as set out in the Notice of General Meeting
“Placing Shares”	the First Tranche Placing Shares and the Second Tranche Placing Shares
“Registrar”	Link Market Services Limited, a private limited company incorporated in England and Wales under registered number 02605568 and having its registered office at The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU
“Regulations”	the UK Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended
“Resolutions”	the resolutions to be proposed at the General Meeting as set out in the Notice of General Meeting
“Second Admission”	admission of the Second Tranche Placing Shares to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules
“Second Tranche Placing Shares”	30,000,000 new Ordinary Shares to be issued pursuant to the Placing

“Shareholders”	the holders of Ordinary Shares from time to time, each individually being a “Shareholder”
“TPI”	Turner Pope Investments (TPI) Limited a private limited company incorporated in England and Wales under registered number 9506196 and having its registered office at 550 Ley Street, Ilford, Essex IG2 7DB
“TPI Placing Agreement”	the conditional agreement dated 23 July 2018 relating to the Placing, between the Company and TPI
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“US” or “United States”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
“\$”	the lawful currency of the United States
“£”	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.

“EPC”	engineer, procurement and construction
“FEED”	front end engineering design
“FID”	final investment decision
“Renewable Identification Number”	a renewable identification number assigned to a batch of biofuel to track its production use and trading as required by the Renewable Fuel Standard
“Renewable Transport Fuels Obligation”	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

Company number: 5712187

Directors:

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

23 July 2018

Dear Shareholders

Placing of 60,000,000 new Ordinary Shares at a price of 10 pence per share

Notice of General Meeting

1. Introduction

The Board announced on 23 July 2018 that it has proposed to raise, subject to certain conditions, £6 million (before expenses) by way of a placing of 60,000,000 Placing Shares at a placing price of 10 pence per share to certain institutional and other investors. The Placing Price represents a discount to the closing mid-market price of the Ordinary Shares as at 20 July 2018 of 0.52 pence per Ordinary Share (a discount of approximately 5.0 per cent.).

The Directors intend to use the net proceeds raised by the Placing to: (i) strengthen the Company's balance sheet; (ii) fund its portion of the pre-FEED development costs for its UK waste-to-renewable jet fuel project; (iii) allow it to continue to support the ENVIA project to the point where the Company understands the financial plan to restore the second reactor to operation; and (iv) support the process for on-boarding one or more strategic investors to provide development funding for the Mississippi biorefinery project.

The Placing of the First Tranche Placing Shares is not conditional upon the passing of any resolutions by shareholders and will be issued for cash on a non-pre-emptive basis pursuant to the authorities granted to the Company by its Shareholders at the 2018 annual general meeting held on 29 June 2018. The Placing of the Second Tranche Placing Shares 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 Second Tranche Placing 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 a.m. on 8 August 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 Placing of the Second Tranche Placing Shares is also conditional on each of the Placing Agreements becoming unconditional and not being terminated in accordance with their terms and upon First Admission occurring on or before 30 July 2018 (or such later date as TPI and the Company may agree, not being later than 13 August 2018). The Placing is not being underwritten.

The purpose of this document is to provide you with details of, and the reasons for, the Placing 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 690,789 Ordinary Shares representing approximately 0.2 per cent. of the Ordinary Shares in issue as at the date of this document.

Further details of the Placing are set out in paragraph 6 of Part I (*Letter from the Chairman of Velocys plc*) of this document.

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 (being premium renewable waxes, diesel and naphtha) were produced and in September 2017 the plant generated revenue for the first time. In October 2017, the plant achieved an operational capacity of 200 barrels of products per day. The Velocys reactor technology in the ENVIA plant represents the commercial system that will be used in the Company's future renewable fuels biorefineries.

In March 2018, the Renewable Identification Numbers produced at the ENVIA plant were verified by Weaver, an independent third party auditor, under the Quality Assurance Program (QAP) approved by the US Environmental Protection Agency. As a result ENVIA, signed a RIN purchase and sale agreement to sell, at a fixed price, all of the available RINs generated at the plant for a six-month term beginning in April 2018. The agreement has industry standard payment terms.

In May 2018, Velocys was informed by ENVIA that a leak had been detected at the ENVIA plant that was believed by ENVIA to have originated inside one of the plant's two Fischer-Tropsch reactors. The reactor has been removed from operation and is undergoing analysis by ENVIA's insurance company as it processes the relevant insurance claims. The plant continues to operate using the second Velocys Fischer-Tropsch reactor.

ENVIA's investigation identified the ancillary coolant system as the root cause of the leak. ENVIA has since implemented modifications, approved by the Company, to rectify a design flaw in the ancillary coolant system serving the second reactor and has also modified operating procedures. The second reactor has now operated successfully without incident through the same cycle through which the first reactor was operating when the leak was detected.

This successful operation of the second reactor supports the findings of the ENVIA investigation. The Company's position remains that the root cause of the leak in the first reactor was a design flaw in the ancillary coolant system and not the result of any flaw in the core Velocys Fischer-Tropsch technology. The Velocys Fischer-Tropsch reactor is designed to safely contain this kind of leak to ensure there is no potential impact to personnel or the environment.

Velocys, as licensor of the Fischer-Tropsch technology and as a minority shareholder, continues to provide support to ENVIA and its team. Velocys remains committed to the ENVIA plant and will continue to work with ENVIA to assess the likely repair cost and consequent funding requirements. As the plant has been operating using one reactor since the leak was detected, it is unlikely that the plant will become cash flow positive in Q2 2018 as previously expected. The plant is now not expected to become cash flow positive until the second reactor can be restored to operation.

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 financial contributions from some or all of the joint venture partners (including the Company).

(b) Mississippi – the Company's second US biorefinery

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 and secured total incentives of approximately \$60 million.

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 environmental permitting is ongoing. Pre-FEED has been completed and the integrated technology demonstration is ongoing. The Company is in the process of selecting an EPC partner to complete the FEED study.

The Company has commenced a structured, competitive process to secure the necessary development capital investment by one or more strategic partners and has seen interest from multiple parties. The Company has continued to update its project plans including in respect of plant sizing and plant design, which consequently impact the capital requirements and expected returns of the plant. It is likely that the project plans will continue to evolve during discussions with potential strategic partners.

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 early 2020. Plant construction is then expected to commence following FID, with plant commissioning expected to begin during 2022.

There is significant value uplift from feedstock at equivalent \$1 per gallon to final products at \$8.20 per gallon of which federal credits will comprise approximately 50 per cent., state credits approximately 25 per cent. and product revenues approximately 25 per cent.

The Fischer Tropsch technology enables an economic conversion of a wide range of low cost, abundant feedstocks such as woody biomass (and municipal waste on other projects) into high value fuels. These fuels qualify for high value credits in the United States under the Renewable Fuels Standard and the United Kingdom under the Renewable Transport Fuels Obligation. The fuels meet demands for particulate and greenhouse gas reduction with up to 90 per cent. and 70 per cent. reduction respectively. The fuels are entirely “drop in” into conventional fossil fuels, fully leveraging existing engines and logistics. In addition, there are no blend limitations for naphtha and diesel (50 per cent. for jet fuel).

The signature of the site option agreement completes one of the work packages required for the US 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 Sumitomo Mitsui Banking Corporation (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.

(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 which came into force on 15 April 2018 provide the required commercial platform for this opportunity as, for the first time, renewable jet fuel now qualifies for credits under the Renewable Transport Fuels Obligation. Velocys, Shell and British Airways are the partners on the project.

The initial feasibility stage of the project was successfully completed in June 2018. At the same time, £4.9m of funding was secured from the partners, including Velocys which has committed £1.5 million (a significant proportion of which is in the form of an in-kind contribution), to deliver the next development phase of the project. As part of the funding package, a grant of approximately £0.5 million was secured from the UK Department for Transport under the Future Fuels for Flight and Freight Competition. Pre-FEED has commenced and FEED could commence in the first half of 2019. Subject to receiving funding and the completion of all development stages, FID could be achieved in 2020.

The Directors believe that the UK waste-to-renewable jet fuel plant will produce an output of 10 million gallons per year once the plant is fully operational.

Delivering the UK waste-to-renewable jet fuel plant project will be the starting point for entry by the Company into the UK waste market. Not only does the project support the message that Velocys is committed to renewable fuels, it further validates the Company's business strategy of bringing strategic investors on board and entering into a second market. Further, this project demonstrates the flexibility in renewable feedstock.

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 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 are payable).

(d) ***License to Red Rock Biofuels***

In May 2018, Velocys received a "notice to proceed" action to commence manufacturing of the Fischer-Tropsch reactors and catalyst for the Red Rock Biofuels LLC ("**RRB**") biorefinery that will be located in Lakeview, Oregon, USA. RRB has commenced construction of the biorefinery, which will incorporate Velocys' technology, and produce low-carbon, renewable diesel and jet fuel from woody biomass. Velocys' role in this project is as a licensor for its Fischer-Tropsch technology to be used for the project.

The biorefinery in Lakeview will convert forestry residue into approximately 15 million gallons per year of renewable transportation fuels including diesel and jet fuel. RRB has in place contracts from several airlines to purchase 100 per cent. of the jet fuel produced each year. RRB's Lakeview project is expected to deliver around \$15 million of revenue to Velocys during the construction and early operation stages of the plant, and an additional \$30 million or more over the life of the biorefinery. Over \$6 million has already been invoiced by the Company and received from RRB.

Velocys core strategy is to develop a multiple number of its own biorefineries with strategic partners, and license its Fischer-Tropsch technology to third parties where it makes strategic and commercial sense. As licensor, Velocys will work closely with RRB and support them throughout construction through to operation. Velocys is currently implementing supply chain activities so that the catalysts and reactors can be delivered.

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 operational
- **2018:** UK biorefinery project enter pre-FEED with Shell and BA

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 and 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 drivers

The Company's key business drivers can be summarised as:

- Velocys' first-of-a-kind commercial scale proven technology and business model enables entry to renewable fuels markets to grow a material supply position;
- there is an abundant low cost feedstock supply of waste and woody biomass globally;
- Velocys fuels can yield greenhouse gas and particulate reductions of up to 70 per cent. and 90 per cent. respectively; and
- leveraging the Company's engineering, operational and technology expertise to optimise future plant costs and timelines.

Capital structure

In January 2018, the Company raised approximately £18.4 million (before expenses) which consisted of:

- approximately £14 million (before expenses) by way of an equity placing at a placing price of £0.10 per Ordinary Share; and
- £4.4 million (before expenses) by way of an open offer made to eligible shareholders at a subscription price of £0.10 per Ordinary Share.

A total of 330,322,765 Ordinary Shares have been issued and allotted with options, warrants and convertible loan notes in respect of an additional 29,605,213 Ordinary Shares. The total number of shares, fully diluted is therefore 359,927,978. As at the close of trading on 20 July 2018, the share price of the Company was 10.5 pence, giving the Company a market capitalisation of approximately £34.8 million as at 20 July 2018.

4. Current trading

The Company's financial position and funding requirements reflect the taking forward of its strategy and delivery of projects.

The financial statements for the year ended 31 December 2017 can be summarised as follows. The revenues for the period were £0.8 million (2016: £1.4 million). Operating loss for the period was £21.4 million before and £51.2 million after exceptional costs (2016: £16.7 million before and £17.1 million after exceptional costs). Cash (including short term investments) at period end stood at £2.1 million (31 December 2016: £18.7 million), while cash outflow was £16.6 million (2016: £19.4 million). Cash outflow comprised £16.3 million consumed by operations, less an R&D tax credit received of £1.0 million, and a £9.8 million increase in the loan to ENVIA, offset by cash received through the May 2017 fundraise of £9.7 million (after expenses).

5. Use of proceeds

The Company intends to raise gross proceeds of £6 million (before expenses) pursuant to the Placing, equivalent to approximately £5.5 million net of expenses. The Directors intend that the net proceeds of the Placing will be used by the Company to: (i) strengthen the Company's balance sheet; (ii) fund its portion of the pre-FEED development costs for its UK waste-to-renewable jet fuel project; (iii) allow it to continue to support the ENVIA project to the point where the Company understands the financial plan to restore the second reactor to operation; and (iv) support the process for on-boarding one or more strategic investors to provide development funding for the Mississippi biorefinery project.

The Company estimates that the total remaining costs for it to develop the Mississippi biorefinery project to FID will be in the order of £45 million and as such further funding will be required, which it intends to secure through investment by one or more strategic partners.

The achievement of FID of the Mississippi biorefinery project 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 Placing

The Company proposes raising £6 million, before expenses, by way of a conditional, non-pre-emptive placing of 60,000,000 new Ordinary Shares at the Placing Price. The Placing Shares will be placed by the Joint Brokers as agents for the Company and pursuant to the Placing Agreements, with institutional and other investors. The Placing is subject to the terms and conditions set out in Appendix 1 of the announcement made by the Company on 23 July 2018.

The Placing Price represents a discount to the closing mid-market price of the Ordinary Shares as at 20 July 2018 of 0.52 pence per Ordinary Share (a discount of approximately 5.0 per cent.). The Placing Shares will represent approximately 15.4 per cent. of the Enlarged Share Capital (provided the Placing is fully subscribed and provided that no options, warrants or convertible loan notes are exercised) and will, when issued, rank *pari passu* in all respects with the Existing Ordinary Shares, including all rights to all dividends and other distributions declared, made or paid following Admission.

The Placing of the First Tranche Placing Shares is conditional upon (amongst other things):

- (a) the TPI Placing Agreement becoming unconditional and not having been terminated in accordance with its terms; and
- (b) First Admission occurring on or before 30 July 2018 (or such later date as TPI and the Company may agree, not being later than 13 August 2018); and

The Placing of the Second Tranche of Placing Shares is conditional on (amongst other things):

- (a) the Numis/Canaccord Placing Agreement becoming unconditional and not having been terminated in accordance with its terms;
- (b) First Admission occurring on or before 30 July 2018 (or such later date as TPI and the Company may agree, not being later than 13 August 2018);
- (c) Second Admission occurring on or before 9 August 2018 (or such later date as Numis, Canaccord and the Company may agree, not being later than 23 August 2018); and
- (d) the passing of the Placing Resolutions at the General Meeting.

The Placing Agreements contain warranties from the Company in favour of the Joint Brokers in relation to, (amongst other things), the Company and its business. In addition, the Company has agreed to indemnify the Joint Brokers in relation to certain liabilities it may incur in undertaking the Placing. The Joint Brokers have the right to terminate the Placing Agreements 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 First Tranche Placing Shares to be admitted to trading on AIM, subject to the Placing Agreements not having been terminated, and it is expected that trading in the First Tranche Placing Shares will commence at 8.00 a.m. on 30 July 2018. Application will be made for the Second Tranche Placing Shares to be admitted to trading on AIM, subject to the Placing Agreements not having been terminated, and it is expected that trading in the Second Tranche Placing Shares will commence at 8.00 a.m. on 9 August 2018.

The Directors consider it important that, where reasonably practicable, Shareholders have an opportunity to participate in its equity fundraisings. However, given that the Company raised £4.4 million (before expenses) by way of an open offer in January 2018, the Company is not intending to raise any further funds by way of an open offer in this fundraising.

7. Resolutions

The Placing of the First Tranche Placing Shares is not conditional upon the passing of any resolutions by shareholders and the First Tranche Placing Shares will be issued for cash on a non-pre-emptive basis pursuant to the authorities granted to the Company by its Shareholders at the 2018 annual general meeting held on 29 June 2018.

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

- (a) Resolution 1 is an ordinary resolution to grant authority to the Directors under section 551 of the Act to allot relevant securities, up to a maximum aggregate nominal amount of £300,000 pursuant to the

Placing, such authority expiring at the earlier of the Company's next annual general meeting and 8 November 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 £300,000 (being the maximum required for the purposes of issuing the Second Tranche Placing Shares); and

- (b) Resolution 2 is a special resolution, conditional upon the passing of Resolution 1, to empower the Directors, pursuant to section 570 of the Act, to allot Ordinary Shares up to a maximum aggregate nominal amount of £300,000 on a non-pre-emptive basis pursuant to the Placing, such authority expiring at the earlier of the Company's next annual general meeting and 8 November 2019.

If Resolution 2 is passed, the Directors will have the power, under the Act, to allot the Second Tranche Placing Shares without offering those shares to existing Shareholders.

These authorities are required to enable the Directors to effect the Placing of the Second Tranche Placing Shares and are in addition to the general authorities that were granted by Shareholders at the Company's annual general meeting on 29 June 2018, which gave the Directors authority to allot relevant securities up to a maximum aggregate nominal amount of £1,101,075.88 under section 551 of the Act and to allot Ordinary Shares up to a maximum aggregate nominal amount of £330,322.77 on a non-pre-emptive basis under section 570 of the Act (such authorities expire at the next annual general meeting of the Company or 31 July 2019, 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 not less than 75 per cent. of the Shareholders voting to be passed.

Given that the Placing of the First Tranche Placing Shares will exhaust the majority of the authority to allot shares on a non-pre-emptive basis granted to the Company by its Shareholders at the 2018 annual general meeting held on 29 June 2018, Resolution 3, summarised below, is also being proposed at the General Meeting, to authorise the Directors to allot and issue equity securities representing 10 per cent. of the Existing Share Capital on a non-pre-emptive basis. The Directors have no present intention of exercising this authority but it will enable the Directors, at their discretion, to allot a limited number of equity securities (or treasury shares) for cash and thereby provides the Directors with greater flexibility to take advantage of funding opportunities as they arise.

- (c) Resolution 3 is a special resolution to empower the Directors, pursuant to section 570 of the Act, to allot Ordinary Shares up to a maximum aggregate nominal amount of £330,322.77 on a non-pre-emptive basis, such authority expiring on 31 July 2019 or at the conclusion of the next annual general meeting of the Company in 2019 (whichever is the earlier).

This authority is in addition to the authorities proposed in the Placing Resolutions and in addition to the general authorities that were granted by Shareholders at the Company's annual general meeting on 29 June 2018.

Resolution 3 is a special resolution and requires the approval of not less 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 a.m. on 8 August 2018.

8. Action to be Taken by Shareholders

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 a.m. on 6 August 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.

9. Recommendation

The Directors consider that the Placing 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 Placing to meet its ongoing liquidity requirements and to continue to implement its strategy. If the Placing Resolutions are not passed by Shareholders, the Placing of the Second Tranche Placing Shares will not proceed. In these circumstances, the Directors will need to reconsider the Company's strategy and the Company may need to seek alternative funding, which may not be available on terms which are acceptable to the Company or at all. 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 690,789 Ordinary Shares (representing approximately 0.2 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 Placing 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 Placing 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 Placing to implement its strategy, as described in paragraph 5 of Part I (*Letter from the Chairman of Velocys plc*) of this document. The Placing of the Second Tranche Placing Shares is conditional on, amongst other things, the passing of the Placing Resolutions at the General Meeting and upon First Admission occurring on or before 30 July 2018 (or such later date as TPI and the Company may agree, not being later than 13 August 2018. If one of the conditions is not fulfilled, the Company will likely fail to raise the full amount of the proceeds required. 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 Placing 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 Placing 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 UK waste-to-renewable jet fuel project proceeding

The UK 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:

- there may continue to be a lack of clarity on future waste policy, including maintaining the UK 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 UK 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. Key executives and employees need to be appropriately incentivised.

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 US 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 US 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 develop and subsequently to build this first-of-a-kind biorefinery, which may not be available on terms acceptable to the Company or at all. 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 of FID and the obtaining of the US Department of Agriculture loan guarantee may be delayed which could 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 2019. Any increase 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.

US Department of Agriculture loan guarantee

The Company intends to apply for a loan guarantee to be issued under the US 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 US 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 US Department of Agriculture's requirements.

If the Company fails to obtain the loan guarantee from the US 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 US Department of Agriculture loan guarantee

The Company intends to apply for a loan guarantee to be issued under the US 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 US Department of Agriculture loan, which is 10 years. Failure to pass Sumitomo Mitsui Banking Corporation credit committee preliminary and final approval 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, Start-up/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, Start-up/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

Leak incident

As a result of the recently announced leak incident, there are two key risks for the ENVIA joint venture: (i) timeline and quantum of insurance recovery (ii) timeline and cost to reach sustainable cash generation. Consequently, Velocys does not understand its additional cost impact, at this time, needed to support ENVIA in order for the plant to become cash flow positive. Potential outcomes could include additional capital required that may not be able to be supported by the Company and/or its JV partners and could result in a majority decision to shutdown the plant, sell to a third party or liquidate the joint venture. Any of these outcomes could materially adversely affect the Company's business, financial condition, results or future operations. In addition, if the plant is shut down, this would have a material adverse effect on the Company's business, given that the ENVIA plant embodies the commercial demonstration of the Company's technology.

Although the Company is highly confident that there are no flaws in its core Fischer-Tropsch technology, there remains the need for a detailed independent forensic report in order to confirm this. If a detailed independent forensic report were to conclude that Velocys' technology was responsible for the leak, Velocys could be liable to ENVIA under the terms of its licence agreement with ENVIA.

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.

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. There are certain decisions for which the joint venture no longer requires unanimous consent and could result in majority decisions being taken that are not in the Company's best interest.

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, in majority, 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 and the results for the year ended 30 December 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 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.

1.4 Risk factors specific to the Red Rock Biofuels Commercial License Deal

Project Continuation

Red Rock Biofuels may fail to deliver the project or there may be significant delays or material changes to the project, any of which could impact the timing and quantum of future revenues, which could adversely affect the Company's business, financial condition, results or future operations.

Supply Chain

Delays or complications in the qualification process for reactor and catalyst manufacturing could impact costs and timeline of revenues. Raw material pricing movements could impact costs and erode

margins. Either of these events 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 PLACING

Shareholders will experience dilution in their ownership of the Company

The effect of the Placing will be a reduction of a Shareholder's proportionate ownership and voting interests in the Company.

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 8 August 2018 at 10 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 £300,000 pursuant to a placing of ordinary shares in the capital of the Company, as further described in the circular of the Company dated 23 July 2018 (the “Placing”), 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 8 November 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 29 June 2018.

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 £300,000 to persons applying for ordinary shares in connection with the Placing 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 8 November 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 29 June 2018.

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.

SPECIAL RESOLUTION

To consider and, if thought fit, pass Resolution 3 as a special resolution:

3. THAT the directors of the Company be empowered pursuant to section 570(1) of the Act to allot equity securities 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:
 - (a) in connection with an offer of such securities by way of rights to holders of ordinary shares of 1p each in the capital of the Company (“**ordinary shares**”) in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and

- (b) otherwise than pursuant to sub-paragraph (a) above up to an aggregate nominal amount of £330,322.77 (representing 10% of the Company's issued ordinary share capital at the date of posting this notice),

and shall expire on 31 July 2019 or at the conclusion of the next annual general meeting of the Company in 2019 (whichever is the earlier), and provided further that the Company may before the expiry of this authority make an offer or agreement which would or might require relevant securities to be allotted after the expiry of this authority and the directors may allot equity securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired.

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

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

Jeremy Gorman
Company Secretary

23 July 2018

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 6 August 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 20 July 2018 (being the last working day prior to the publication of this notice), the Company's issued share capital consisted of 330,322,765 Ordinary Shares, carrying one vote each. So, the total voting rights in the Company as at that date are 330,322,765.
- (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.

