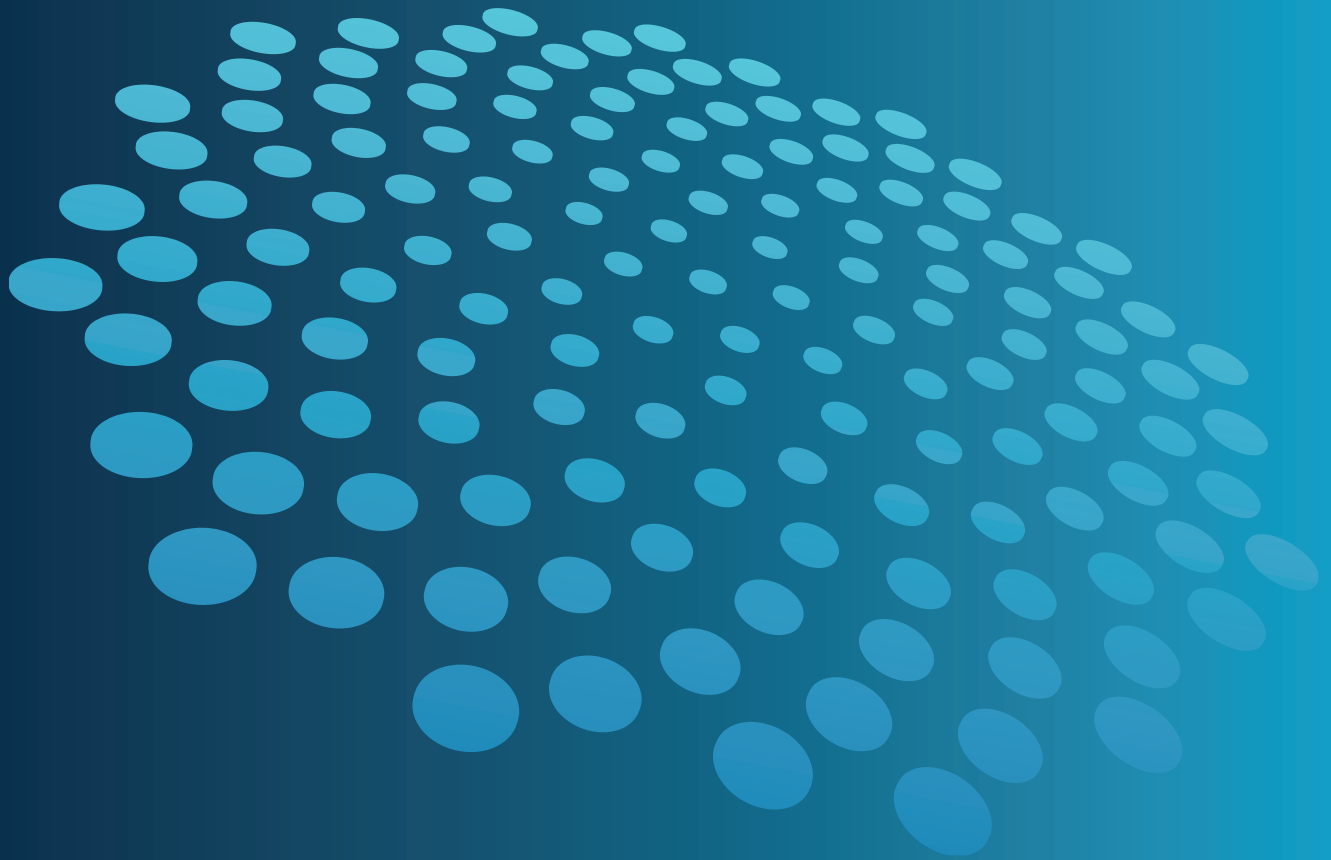


Investor Relations Update

October 2017





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Welcome to Mercia's latest Investor Relations Update, providing you with insight into the progress of Mercia's direct portfolio of investments and an update on corporate activities from the wider Mercia Group.

If you have any questions about the portfolio or would simply like to know more about what is happening across the Group, then please get in touch with us by email: info@merciatech.co.uk or call us on 0330 223 1430. We're happy to chat over the phone or in person, please just let us know your preference.

Visit us online

For up-to-date information on our investments, please visit www.merciatech.co.uk

Corporate Update



Welcome - Dr Mark Payton, Chief Executive Officer

Positive momentum continues across the Group as we build a compelling and sustainable model which will deliver value to our shareholders and stakeholder community.

Whilst some of you may already have read our results, for those who have not, below is a short summary which captures the key events which we hope will be of interest to you.

Group and portfolio highlights for the year

- The direct investment portfolio value increased by £13.9million to £52.0million (2016: £38.1million) including net fair value gains of £4.3million (2016: £0.9million)
- £11.7million invested in 15 portfolio companies, including four new Emerging Stars from our managed funds
- Concepta, which was one of the new Emerging Stars, was admitted to AIM in July 2016
- The fair value of nDreams increased significantly following a successful syndicated investment round
- Allinea Software, a University of Warwick spinout, was sold to ARM on a full cash basis providing an 88.4% uplift on the Group's direct investment cost
- The integration of Enterprise Ventures Group Ltd ('Enterprise Ventures') was successfully completed, creating a critical mass of more than 65 investment professionals and support staff within the UK regions
- A sustainable funnel of potential new investment opportunities for Mercia's balance sheet continued to expand as a result of significant new third party fund mandate wins which scaled the Group's fund management business from circa £220.0million to circa £336.5million
- A successful Placing which raised £40.0million

A profit of £1.0million was reported for the financial year providing a good foundation to build upon during our new financial year and the first few months of 2017/2018 has seen accelerated investment momentum across the business. This pace of investment reflects both the growth of the Emerging Stars portfolio and the increase in managed fund activity.

We look forward to supporting our growing portfolio and strengthening deal flow with a well-funded balance sheet following the successful placement on AIM, and a materially increased level of third-party managed funds, thanks to the Group's success in winning new fund mandates.

Dr Mark Payton, Chief Executive Officer



Outlook - Susan Searle, Non-executive Chair

I am pleased to report that the persistent focus of our Investment Team throughout the often quiet summer months has enabled continued progress of both the direct investment portfolio ('Emerging Stars') and the Group's third party managed funds' portfolio.

The syndicated round of Oxford Genetics alongside Invesco Perpetual is an illustration of this progress and the potential opportunities held within our Emerging Stars portfolio.

The activity of our managed funds is also growing as a result of the significant new contract wins earlier this year with the British Business Bank. These mandates are already resulting in a pipeline of new deals

and the growth of this part of the Group has further strengthened Mercia's regional footprint.

Whilst the majority of the portfolio is still relatively young, we are already demonstrating the value which the Investment Teams are able to uncover using both their personal networks and Mercia's university partnerships; it is the strength of these relationships which provides one of several key differentiators of the Mercia Model.

Moving to matters outside of the Group and the Government's review into Patient Capital, led by Sir Damon Buffini, the Treasury's Patient Capital Review is seeking views on how to increase the supply of capital to growing innovative firms. It covers many of

the subject areas which are core to Mercia's proposition and we are therefore delighted that the Treasury is investing time to understand the issue of access to capital in more detail. Mercia's own response was submitted last month.

The last three months of 2017 will no doubt see Mercia's momentum continue. Despite macroeconomic issues overseas, our direct portfolio investee companies operate in sectors without national barriers, target global customers and are not restricted to mainland Europe. We are therefore confident that the net asset value of the portfolio will continue to grow throughout the remainder of the year and beyond.

Susan Searle, Non-executive Chair

Mercia subsidiaries rebranded as Mercia Fund Managers

This is an exciting time as we continue to scale the business and increase our funds under management. As a result of our continued growth, we feel that now is the right time to bring the fund management subsidiaries under one brand.

The market facing name change of the subsidiary companies to 'Mercia Fund Managers' and the refresh of our website reflects how the Group has evolved with the combination of the Enterprise Ventures and Mercia team. Our goal is to become the leading investment company in the UK, and with our team of experienced investment specialists at the heart of our business, this is very much an achievable target for us.

Webcast of 2017 results

This year has been the first that we have published a webcast of the preliminary results presentation.

If you would like to listen to the full presentation given to analysts on the day of results, you can listen to this online by visiting the Corporate Documents page on our website: www.merciatech.co.uk

Annual Report 2017

Mercia's 2017 Annual Report was published on Friday 21st July 2017. To download the full report please visit the Corporate Documents page on our website: www.merciatech.co.uk

To request a hard copy, please email info@merciatech.co.uk

Direct Investment Portfolio



Update - Matt Mead, Chief Investment Officer

In the second full year since Mercia's listing on AIM, the Investment Teams have continued to focus on the direct investment portfolio by building out the management and boards of these key companies, combined with deploying further capital into existing assets that are making good commercial progress. The portfolio consists of holdings in 24 companies of which the top 18 account for 98.5% of the total portfolio value. I remain pleased with the continued commercial development of the portfolio and expect this to continue during the next 12 months.

Matt Mead, Chief Investment Officer



£2.0million into Oxford Genetics

Mercia announced on 21st August 2017 that it had completed a £2.0million follow-on direct investment into Oxford Genetics, a synthetic biology company with significant expertise in helping to design, develop and produce virus and protein based biologics to support leading therapeutic companies. This investment is part of a £7.5million funding round which also sees a new investor, Invesco Asset Management (Invesco), as agent for and on behalf of its discretionary managed clients, joining the syndication as a partner. Invesco is one of the largest investment managers in the UK and its involvement in this funding round demonstrates the significant potential seen in Oxford Genetics by both the teams at Mercia and Invesco.

Mark Payton, Chief Executive Officer at Mercia and board director of Oxford Genetics, said: "This sector is growing rapidly, driven by pharma and biotech companies' relentless drive for new therapeutics. The commercial validity of the business has been recently supported by a string of technology licence agreements. This syndicated investment alongside Invesco reflects our confidence in Oxford Genetics' strong position and its ability to deliver shareholder value in the medium term."



£2.0million into nDreams

Mercia recently announced that it has invested an additional £2.0million into nDreams, one of the UK's largest independent developers and publishers focused on virtual reality gaming and experiences content.

Mercia led the wider fundraise which totalled £2.7million and brings its total holding to 45.6%, with £7.1million capital invested. With an expanding VR market, nDreams will use the capital to support the release of new games and experience titles throughout 2017, including the latest of its five VR experiences,

Bloody Zombies, which won a Best of VR Game Award at the 2017 E3 event in Los Angeles in June.

Mike Hayes, Investment Director at Mercia, said: "nDreams continues to thrive within the VR market, a sector expected to be worth in excess of \$30.0billion by 2020. Its growing reputation as one of the UK's leading developers and publishers of VR content demonstrates the significant progress that the company has made this year with many of the major hardware brands in this rapidly growing market. We are delighted to continue back this industry-leading team. We believe that continuing to invest in nDreams and other high growth companies across the Digital & Digital Entertainment sector will strengthen our ability to build significant shareholder value."

New direct investment - Intechnica

A further Emerging Star was added to Mercia's portfolio of direct investments in the first quarter of the new financial year. A small initial investment was made into Intechnica, a business focused on critical business operations including ecommerce websites, high volume ordering systems, online ticketing and mobile CRM applications. The company was founded in 2006 by Jeremy Gidlow and Andy Still; following the implementation and optimisation of the system that successfully sold the tickets for Glastonbury 2005, the founders realised that not only could businesses differentiate themselves by offering high performing online experiences to their customers, but that for many businesses performance optimisation could be the difference between success and failure. Over recent years the company has built an impressive customer base including ao.com, Avis and William Hill, and it featured in the 2017 Top 100 Tech Businesses in Greater Manchester. The market opportunity for Intechnica is significant and the Investment Team anticipate a larger, follow on round in late 2017.

Syndicated round - Impression Tech

In June, Mercia made a £1.5million follow on investment into Impression Technologies (Impression Tech) in a £3.0million syndicated investment round. The additional capital takes Mercia's total shareholding to 26.4%.

Based in Coventry, the company is commercialising a novel forming process initially researched at the University of Birmingham and subsequently developed and spun out of Imperial College.

The Emerging Star has a patented technology called Hot Form Quench (HFQ®) for pressing strong, lightweight aluminium components for the automotive sector. Following the opening of the world's first HFQ® production facility in October 2016, the company is already supplying components to manufacturers including Aston Martin and Lotus Cars. It is also in discussions with a number of other global automotive brands.

The investment will enable the company to scale up its commercial operations and progress its promising international customer pipeline.

intechnica

Digital Performance

 **Impression**
TECHNOLOGY



PsiOxus reaches 25th in Sunday Times' ranking

Congratulations to portfolio company, PsiOxus Therapeutics (PsiOxus), which has been ranked 25th in the league table of Britain's fastest growing technology firms as published by the Sunday Times. Revenue from licensing its IP grew by an average of 120% to £8.6m in 2016, after it secured a deal with multinational Bristol-Myers Squibb. This is a fantastic achievement by the team, well done all.



Concepta ships first order

We're pleased to report that following the receipt of its first sales order in June, totalling £225,000 for its myLotus fertility product, Concepta has made its first shipment of products to China. The order represents the first purchase for the company's myLotus products and will see HZ Biotech distribute myLotus products in China to help achieve market penetration for the initial launch of the product in the country.



Syndicated round - Warwick Audio Technologies

We're pleased to announce that we have invested £1.9million as part of a £3.1million syndicated round into University of Warwick spinout, Warwick Audio Technologies, the specialist developer of a new generation of planar audio transducers. This investment is alongside GuoGuang Electric Co and a number of sophisticated private investors.

The funds raised via this new investment round will be used to continue product development of its High-Precision Electrostatic Laminate technology, a high-end headphone system called the Sonoma Model One, and to expand sales of these electrostatic headphones. The funds will also be used to help the company take advantage of new commercial opportunities which have been identified in the automotive market.

Third Party Managed Funds



Update - Jonathan Diggines, Executive Director, Funds

The investment activity in our new managed funds has got off to a good start. Even though the new Northern Powerhouse Investment Funds were only announced at the end of February 2017, the Investment Teams have managed to complete 23 transactions; a tremendous effort from both our Debt and Equity divisions.

Based on our highly selective investment strategy of investing in circa 5% of the portfolio within the managed funds, not all of these investments will become balance sheet investments for Mercia Technologies. However, we continue to work proactively with the managed funds portfolio to drive compelling and de-risked opportunities towards becoming

direct investments, our Emerging Stars, over the medium term as they work towards achieving key commercial and technical milestones.

One of the most exciting investments from the Group's managed funds is Blue Prism. The company, which was first supported by the Group's RisingStars Growth Funds in 2004, is based in Newton-Le Willows, Merseyside, and is a market-leader in developing and supplying a virtual workforce powered by software robots, known as Robotic Process Automation (RPA). It has a blue-chip customer base including IBM, Procter & Gamble, Siemens, and Zurich.

The company listed on AIM in March 2016 when it raised gross proceeds of £21.1million at 78 pence per share, giving it a market capitalisation of £49.0million. Today, the company is valued at almost £700.0million; a perfect illustration of the levels of growth which can be achieved when applying a patient capital approach to investment.

On 4th October 2017 we announced a further realisation of this investment which has resulted in 55x return for the managed fund investment. For more details visit www.merciatech.co.uk.

Jonathan Diggines, Executive Director, Funds

World-class guidance and funding

As an investor, Mercia is highly active in each business it backs, taking a board position to ensure it maintains a hands-on investment approach, driven by the deep sector experience and expertise of the Investment Team which add significant long-term value to the portfolio.

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University Partners



Update - Dr Nicola Broughton, Head of Universities

Under the leadership of Dr Nicola Broughton, Mercia's universities team has completed the next phase of expansion with the recruitment of Dr Sandy Reid to focus on the North. Like the rest of the team, Sandy brings a wealth of university spinout experience with previous roles including spinout manager at Leicester University, licensing manager at Nottingham University and CEO of Nottingham spinout Promethean Particles. This means that Mercia now has a dedicated Investment Manager to focus on universities in each of our key geographic regions with Dr Brijesh Roy in the Midlands and Paul Devlin in Scotland.

Dr Nicola Broughton, Head of Universities

University Partner Deals - Managed Funds



Particle Analytics (Edinburgh 2016)

Particle simulation software for industrial systems:
£70,000 as part of £700,000 round to close current sales pipeline and broaden product development to include Computational Fluid Dynamics, a larger, more mature market



Manchester Imaging (Manchester 2015)

Dental imaging software:
A £150,000 second tranche - this funding round is being used to CE mark their medical software and prepare to launch their first product with a \$5.0billion global market player



MIP Diagnostics (Leicester 2016)

Synthetic antibodies:
£300,000 - this round is being used to drive business development of pipeline products ahead of a larger round



Pertinax – (Bristol 2016)

Antibacterials:
£225,000 as part of a £625,000 round to continue development of slow-release chlorhexidine, recruit a chairman and seek early commercial partnerships

University Partner Deals - Direct Portfolio



Impression Technologies (Birmingham/Imperial 2013)

High-strength, lightweight components for the transportation industry:

£1.5million as part of £3.0million round will enable the establishment of an innovative press facility; further details on page 5

Our vision

Mercia's vision is to become the leading national player in the funding and scaling of high growth businesses with an emphasis on the Midlands, the North of England and Scotland. Through its managed funds and its own balance sheet Mercia is able to provide the 'Complete Capital Solution,' offering a range of debt, venture and growth capital to UK SMEs.

The Group believes there is a significant opportunity in the UK regions to develop leading businesses through the efficient and targeted provision of capital and support, creating substantial value for shareholders.

Get in touch with Mercia to find out more about our operations and investment opportunities.

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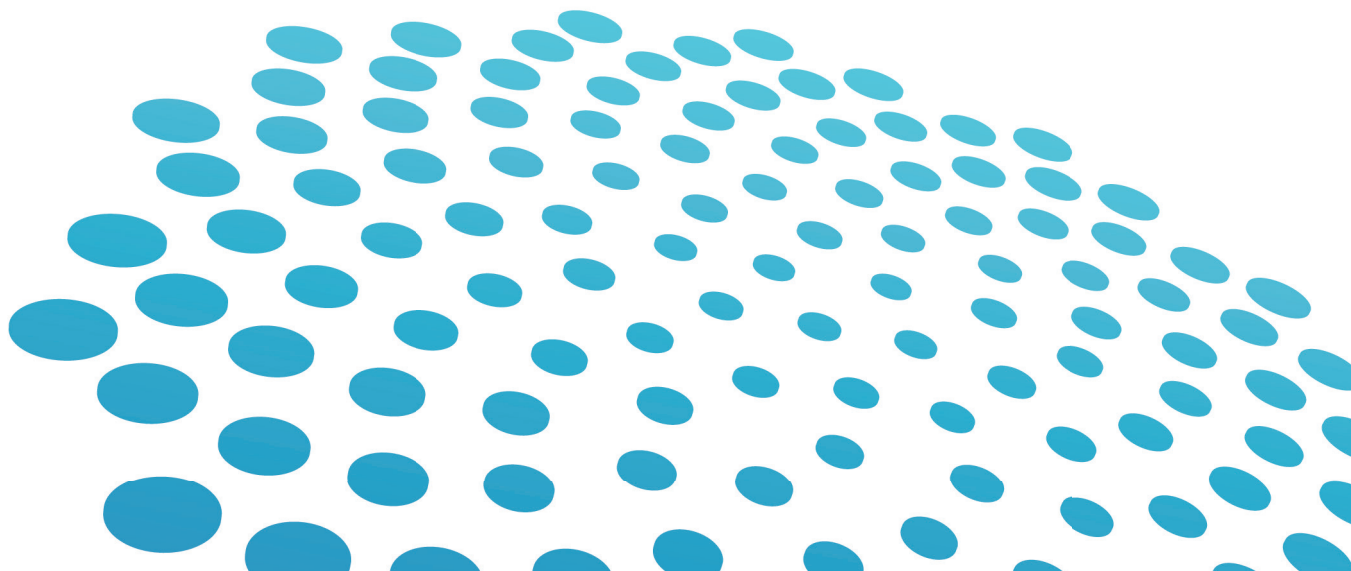
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