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THIS DOCUMENT AND ANY ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should immediately seek your own advice from a stockbroker, solicitor, accountant or other professional adviser authorised and regulated under the FSMA if you are resident in the United Kingdom or, if not, from another appropriately authorised financial adviser. You should be aware that an investment in the Company involves a high degree of risk and prospective investors should in particular carefully consider the section entitled “Risk Factors” set out in Part 2 of this document.

If you have sold or otherwise transferred all of your Existing Ordinary Shares prior to the Record Date please pass this document together with the enclosed Form of Proxy and, if relevant, the Application Form, as soon as possible to the purchaser or transferee, or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the Existing Ordinary Shares. If you have sold only part of your holding of Existing Ordinary Shares on or before the Record Date, please contact immediately your stockbroker, bank or other agent through whom the sale or transfer was effected. However, those documents should not be forwarded to or sent into the United States or any of its territories, Canada, Australia, New Zealand, the Republic of South Africa, the Republic of Ireland or Japan. Any person (including, without limitation, custodians, nominees and trustees) who may have a contractual or legal obligation or may otherwise intend to forward this document to any jurisdiction outside the UK should seek appropriate advice before taking any action. This document does not constitute a recommendation regarding securities of the Company.

The Placing does not constitute an offer to the public requiring the publication of an approved prospectus under section 85 of FSMA and accordingly this document does not constitute a prospectus for the purposes of the Prospectus Regulation Rules made by the Financial Conduct Authority of the United Kingdom (the “FCA”) and has not been approved by the FCA, the London Stock Exchange, any securities commission or any other authority or regulatory body nor has it been approved for the purposes of section 21 of FSMA. In addition, this document does not constitute an admission document drawn up in accordance with the AIM Rules.

Application will be made to the London Stock Exchange for the Placing Shares to be admitted to trading on the AIM market of the London Stock Exchange (“**Admission**”). The Placing Shares will not be admitted to trading on any other investment exchange. It is expected that Admission will become effective, and that dealings in the Placing Shares will commence on AIM, at 8.00 a.m. on 23 December 2019. The Placing Shares will, when issued, rank *pari passu* in all respects with the Existing Ordinary Shares.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List and the AIM Rules are less demanding than those of the Official List. A prospective investor should be aware of the potential risks in investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The London Stock Exchange has not itself examined or approved the contents of this document.

MERCIA ASSET MANAGEMENT PLC

(Incorporated and registered in England and Wales with registered number 09223445)

Placing of 120,000,000 new Ordinary Shares at 25 pence per Ordinary Share

and

proposed acquisition of the NVM VCT fund management business

and

Notice of General Meeting

This document should be read in conjunction with the Form of Proxy and Application Form (where applicable) and the Notice of General Meeting set out in Part 3 of this document. Your attention is drawn to the letter from the Chair of the Company set out in Part 1 of this document containing a recommendation from the Board that you should vote in favour of the Resolutions to be proposed at the General Meeting, and to the Risk Factors in Part 2 of this document, which contains a discussion of certain factors that should be considered by Shareholders when considering whether or not to make an investment in the Company.

Notice of the General Meeting to be held at Forward House, 17 High Street, Henley-in-Arden, Warwickshire B95 5AA at 10.00 a.m. on 20 December 2019 is set out in Part 3 of this document. The accompanying Form of Proxy for use at the General Meeting should be completed in accordance with the instructions printed thereon and returned as soon as possible to the Company's registrar, SLC Registrars at Elder House, St Georges Business Park, Brooklands Road, Weybridge, Surrey, KT13 0TS but by no later than 10.00 a.m. on 18 December 2019. Completion and return of the Form of Proxy will not preclude Shareholders from attending and voting in person at the General Meeting should they so wish.

Canaccord Genuity Limited ("**Canaccord Genuity**"), which is authorised and regulated in the United Kingdom by the FCA, is the Company's nominated adviser and broker for the purposes of the AIM Rules in connection with the Placing and Admission and, as such, its responsibilities as the Company's nominated adviser under the AIM Rules for Nominated Advisers are owed solely to the London Stock Exchange and are not owed to the Company or to the Directors or to any other person or entity in respect of their reliance on any part of this document. Canaccord Genuity is acting for the Company and no one else in connection with the Placing and Admission and will not be responsible to any other person for providing the protections afforded to customers of Canaccord Genuity nor for providing advice in relation to the contents of this document or any matter referred to herein. No representation or warranty, express or implied, is made by Canaccord Genuity for the accuracy of any information or opinions contained in this document or for the omission of any material information, for which it is not responsible.

Nplus1 Singer Advisory LLP ("**N+1 Singer**"), which is authorised and regulated in the United Kingdom by the FCA, is the Company's broker in connection with the Placing and Admission. N+1 Singer is acting 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 customers of N+1 Singer nor for providing advice in relation to the contents of this document or any matter referred to herein. No representation or warranty, express or implied, is made by N+1 Singer for the accuracy of any information or opinions contained in this document or for the omission of any material information, for which it is not responsible.

If you have questions on how to complete the Form of Proxy, please contact SLC Registrars on 01903 706150 or, if calling from outside the United Kingdom, +44 1903 706150. Lines are open from 9.00 a.m. to 5.00 p.m. (London time) Monday to Friday (except English and Welsh public holidays).

Calls to SLC Registrars from outside the UK are charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and monitored randomly for security and training purposes. SLC Registrars cannot provide advice on the merits of the Placing and cannot give any financial, legal or tax advice.

IMPORTANT NOTICE

Cautionary note regarding forward-looking statements

This document contains (or may contain) certain forward-looking statements with respect to certain of the Company's plans and its current goals and expectations relating to its future financial condition and performance and which involve a number of risks and uncertainties. The Company cautions readers that no forward-looking statement is a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statements. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as **"aim"**, **"anticipate"**, **"target"**, **"expect"**, **"estimate"**, **"intend"**, **"plan"**, **"goal"**, **"believe"**, **"predict"** or other words of similar meaning. Examples of forward-looking statements include, amongst others, statements regarding or which make assumptions in respect of the planned use of the proceeds for the Placing, the Group's liquidity position, the future performance of the Group, future interest rates and currency controls, the Group's future financial position, plans and objectives for future operations and any other statements that are not historical fact. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances, including, but not limited to, economic and business conditions, the effects of continued volatility in credit markets, market-related risks such as changes in interest rates and foreign exchanges rates, the policies and actions of governmental and regulatory authorities, changes in legislation, the further development of standards and interpretations under IFRS applicable to past, current and future periods, evolving practices with regard to the interpretation and application of standards under IFRS, the outcome of pending and future litigation or regulatory investigations, the success of future acquisitions and other strategic transactions and the impact of competition. A number of these factors are beyond the Company's control. As a result, the Company's actual future results may differ materially from the plans, goals, and expectations set forth in the Company's forward-looking statements. Any forward-looking statements made in this document by or on behalf of the Company speak only as of the date they are made. These forward-looking statements reflect the Company's judgement at the date of this document and are not intended to give any assurance as to future results. Except as required by the FCA, the London Stock Exchange, the AIM Rules or applicable law, the Company and the Directors expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any changes in the Company's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

Notice to overseas persons

The distribution of this document, the Form of Proxy and/or the Application Form in certain jurisdictions may be restricted by law and therefore persons into whose possession these documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

The Existing Ordinary Shares and the New Ordinary Shares have not been, nor will they be, registered under the United States Securities Act of 1933, as amended, (the **"US Securities Act"**) or with any securities regulatory authority of any state or other jurisdiction of the United States, and the New Ordinary Shares may not be offered or sold, exercised, resold, transferred or delivered, directly or indirectly, in or into the United States unless registered under the US Securities Act or offered in a transaction exempt from, or not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. This document does not constitute an offer to issue or sell, or the solicitation of an offer to subscribe for or purchase, any New Ordinary Shares to any person with a registered address, or who is resident or located in, the United States, and there will be no public offer of New Ordinary Shares in the United States. Neither the Existing Ordinary Shares nor the New Ordinary Shares have been approved or disapproved by the US Securities and Exchange Commission, or any other securities commission or regulatory authority of the United States, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the New Ordinary Shares nor have they approved this document or confirmed the accuracy or adequacy of the information contained in this document. Any representation to the contrary is a criminal offence in the United States.

The Placing Shares will not qualify for distribution under the relevant securities laws of Australia, Canada, New Zealand, the Republic of Ireland, the Republic of South Africa or Japan, nor has any prospectus in

relation to the Placing Shares been lodged with, or registered by, the Australian Securities and Investments Commission or the Japanese Ministry of Finance. Accordingly, subject to certain exemptions, the Placing Shares may not be offered, sold, taken up, delivered or transferred in, into or from Australia, Canada, New Zealand, the Republic of Ireland, the Republic of South Africa, Japan or any other jurisdiction where to do so would constitute a breach of local securities laws or regulations (each a “**Restricted Jurisdiction**”) or to or for the account or benefit of any national, resident or citizen of a Restricted Jurisdiction.

This document does not constitute an offer to issue or sell, or the solicitation of an offer to subscribe for or purchase, any Ordinary Shares to any person in a Placing Restricted Jurisdiction and this document is not for distribution in, into or from a Restricted Jurisdiction.

No incorporation

The contents of the Company’s website at <https://www.mercia.co.uk/> and the contents of NVM’s website at <https://nvm.co.uk/> are not incorporated into, and do not form part of this document.

Publication of website

This document is available on the Company’s website (at <https://www.mercia.co.uk/>) free of charge in accordance with the requirements of Rule 26 of the AIM Rules.

References

All times referred to in this document are, unless otherwise stated, references to UK time.

All references in this document to “**£**”, “**pence**” or “**p**” are to the lawful currency of the UK.

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KEY STATISTICS

Placing Price for each New Ordinary Share	£0.25
Number of Existing Ordinary Shares in issue ⁽¹⁾	303,309,707

PLACING STATISTICS

Number of Placing Shares	120,000,000
Placing Shares as a percentage of the Existing Ordinary Shares ⁽¹⁾	39.56 per cent.
Number of Ordinary Shares in issue immediately following Admission of the Placing Shares ⁽²⁾	423,309,707
Placing Shares as a percentage of the Enlarged Share Capital ⁽²⁾	27.27 per cent.
Middle-market price per Existing Ordinary Share ⁽³⁾	£0.32
Discount of Placing Price to middle-market price per Existing Ordinary Share ⁽³⁾	21.9 per cent.
Discount of Placing Price to volume weighted average price per Existing Ordinary Share during the two month period ended on 2 December 2019	0.87 per cent.
Estimated proceeds of the Placing to be received by the Company (before expenses)	£30.0million

ACQUISITION STATISTICS

Number of Initial Consideration Shares to be issued pursuant to the Acquisition	16,800,000
Enlarged Share Capital immediately following completion of the Acquisition and Placing ⁽²⁾	440,109,707

(1) On 2 December 2019, being the last practicable date prior to the publication of this document.

(2) Assuming, save for the New Ordinary Shares, no Ordinary Shares are issued between the date of this document and completion of the Acquisition.

(3) Based on the closing price on 2 December 2019, being the last practicable date prior to the publication of this document.

EXPECTED TIMETABLE

Announcement of the proposed Placing and the Acquisition	3 December 2019
Latest time and date for receipt of Forms of Proxy for the General Meeting	10.00 a.m. on 18 December 2019
General Meeting	10.00 a.m. on 20 December 2019
Announcement of the results of the General Meeting	20 December 2019
Admission of the Placing Shares	8.00 a.m. on 23 December 2019
Expected date for CREST accounts to be credited in relation to the Placing Shares	23 December 2019
Completion of the Acquisition expected by no later than	27 December 2019
Admission of the Initial Consideration Shares expected by no later than	8.00 a.m. on 30 December 2019
Dispatch of definitive share certificates (where applicable) in relation to New Ordinary Shares	by 10 January 2020

Notes:

1. Certain of the events in the above timetable are conditional upon, amongst other things, the passing of Resolutions 1 and 2 at the General Meeting.
2. If any of the events contained in the indicative timetable should change, the revised times and dates will be notified by means of an announcement through a Regulatory Information Service.

DEFINITIONS

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

Acquisition	the conditional acquisition by MFM of the NVM VCT Business, in accordance with the terms of the Asset Purchase Agreement
Act	the Companies Act 2006, as may be amended from time to time
Admission	the admission of the new Ordinary Shares issued pursuant to the Placing and/or the Acquisition (where the context requires) to trading on AIM becoming effective in accordance with the AIM Rules
AIM	the market of that name operated by the London Stock Exchange
AIM Rules	the AIM Rules for Companies published by the London Stock Exchange governing admission to and trading on AIM, as may be amended from time to time
AIM Rules for Nominated Advisers	the AIM Rules for Nominated Advisers published by the London Stock Exchange setting out the eligibility, on-going obligations and certain disciplinary matters in relation to nominated advisers, as may be amended from time to time
Asset Purchase Agreement	the conditional asset purchase agreement relating to the Acquisition entered into on 3 December 2019 between NVM, MFM and the Company
AuM	assets under management
Board	the board of directors of the Company
Business Day	a day (other than a Saturday or Sunday) on which commercial banks are open for general business in London, England
Canaccord Genuity	Canaccord Genuity Limited, the Company's nominated adviser, joint broker and joint bookrunner in relation to the Placing
certificated or in certificated form	the description of a share or security which is not in uncertificated form (that is, not in CREST)
Company or Mercia	Mercia Asset Management PLC of Forward House, 17 High Street, Henley-in-Arden B95 5AA
Completion	completion of the Acquisition expected to take place no later than 27 December 2019
Consideration	has the meaning given in paragraph 5 of Part 1 of this document
Consideration Shares	the Initial Consideration Shares and/or the Deferred Consideration Shares (as appropriate)
Co-operation Agreement	the conditional co-operation agreement entered into on 3 December 2019 between MFM and NVM
CREST	the relevant systems for the paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear in accordance with the CREST Regulations

CREST Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), including (i) any enactment or subordinate legislation which amends or supersedes those regulations and (ii) any applicable rules made under those regulations for the time being in force
Deferred Consideration	has the meaning given in paragraph 5 of Part 1 of this document
Deferred Consideration Shares	has the meaning given in paragraph 5 of Part 1 of this document
Directors	the directors of the Company, whose names are set out on page 12 of this document
document	this document dated 4 December 2019
EBITDA	earnings before interest, tax, depreciation and amortisation
EIS	enterprise investment scheme
Enlarged Share Capital	the Ordinary Shares in issue immediately following the issue and allotment of the New Ordinary Shares
Euroclear	Euroclear UK & Ireland Limited, the operator of CREST
Executive Directors	the executive Directors of the Company, being Dr Mark Payton, Martin Glanfield and Julian Viggars
Existing Ordinary Shares	the 303,309,707 Ordinary Shares in issue as at the date of this document
FCA	the Financial Conduct Authority
Form of Proxy	the form of proxy for use by Shareholders in connection with the General Meeting
FSMA	the Financial Services and Markets Act 2000, as may be amended from time to time
General Meeting	the general meeting of the Company at which the Resolutions will be proposed and convened for 10.00 a.m. on 20 December 2019 (or any adjournment or postponement thereof), notice of which is set out in Part 3 of this document
Group	the Company, together with its subsidiaries and subsidiary undertakings
Initial Consideration	has the meaning given in paragraph 5 of Part 1 of this document
Initial Consideration Shares	has the meaning given in paragraph 5 of Part 1 of this document
IPO	the initial admission of the entire issued ordinary share capital of the Company to trading on AIM, which took place on 18 December 2014
ISIN	International Securities Identification Number
London Stock Exchange	London Stock Exchange plc
MFM	Mercia Fund Management Limited
N+1 Singer	Nplus1 Singer Advisory LLP, acting as the Company's joint broker and joint bookrunner in relation to the Placing

Net Income	profits before realisations, fair value movements, share-based payments, intangibles, exceptional items, interest and tax
New Ordinary Shares	together, the Placing Shares and the Initial Consideration Shares
Notice of General Meeting	the notice of General Meeting set out in Part 3 of this document
Novation Agreements	the novation agreements relating to the novation of each VCT Management Agreement dated 3 December 2019 between MFM, NVM and each NVM VCT Fund
NVM	NVM Private Equity LLP
NVM VCT Business	the business of managing each of the VCTs pursuant to the VCT Management Agreements carried on by NVM
NVM VCT Funds	each of Northern Venture Trust PLC, Northern 2 VCT PLC and Northern 3 VCT PLC
Official List	the official list maintained by the FCA
Ordinary Shares	ordinary shares of £0.00001 each in the capital of the Company
Overseas Shareholders	Shareholders with registered addresses outside the UK or who are citizens of, incorporated in, registered in or otherwise resident in, countries outside the UK
Placing	the conditional placing of the Placing Shares on the terms and subject to the condition of the Placing Agreement
Placing Agreement	the Placing Agreement dated 3 December 2019 between the Company (1) Canaccord Genuity (2) and N+1 Singer (3) relating to the Placing
Placing Price	£0.25 per Placing Share
Placing Shares	120,000,000 Ordinary Shares which are proposed to be placed in accordance with the terms of the Placing, conditional <i>inter alia</i> on the passing of Resolutions 1 and 2
Prospectus Regulation Rules	the Prospectus Regulation Rules made by the FCA under Part VI of FSMA
Resolutions	the resolutions set out in the Notice of General Meeting
Restricted Jurisdictions	each of the United States or any of its territories, Canada, Australia, New Zealand, the Republic of South Africa, the Republic of Ireland or Japan
Securities Act	the US Securities Act of 1933, as amended
Shareholders	holders of Ordinary Shares
SMEs	small and medium-sized enterprises
Transitional Services Agreement	the conditional transitional services agreement entered into on 3 December 2019 between MFM and NVM
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 2006

UK or United Kingdom	the United Kingdom of Great Britain and Northern Ireland
VCT	a venture capital trust under Part 6 of the Income Tax Act 2007
VCT Management Agreements	the amended and restated management and investment advisory agreement dated 26 January 2015 (as amended on 15 December 2016) entered into between NVM and Northern Venture Trust PLC, (ii) the amended and restated management and administration deed dated 30 July 2014 (as amended on 8 November 2016) entered into between NVM and Northern 2 VCT PLC and (iii) the amended and restated management and administration deed dated 21 May 2014 (as amended on 10 November 2016) entered into between NVM and Northern 3 VCT PLC and each a “VCT Management Agreement”

DIRECTORS, SECRETARY AND ADVISERS

Directors	Ian Metcalfe (<i>Non-executive Chair</i>) Dr Mark Payton (<i>Chief Executive Officer</i>) Martin Glanfield (<i>Chief Financial Officer</i>) Julian Viggars (<i>Chief Investment Officer</i>) Ray Chamberlain (<i>Non-executive Director</i>) Dr Jonathan Pell (<i>Non-executive Director</i>) Caroline Plumb OBE (<i>Non-executive Director</i>)
Company Secretary	Martin Glanfield
Head office and registered office	Forward House 17 High Street Henley-in-Arden B95 5AA
Nominated Adviser, Joint Broker and Joint Bookrunner	Canaccord Genuity Limited 88 Wood Street London EC2V 7QR
Joint Broker and Joint Bookrunner	Nplus1 Singer Advisory LLP 1 Bartholomew Lane London EC2N 2AX
Legal advisers to the Company	Gowling WLG (UK) LLP 4 More London Riverside London SE1 2AU
Legal advisers to the Nominated Adviser and Joint Brokers	Macfarlanes LLP 20 Cursitor Street London EC4A 1LT
Registrars	SLC Registrars Elder House St Georges Business Park Brooklands Road Weybridge Surrey KT13 0TS
Public Relations Adviser	Buchanan Communications Ltd 107 Cheapside London EC2V 6DN

PART 1

LETTER FROM THE CHAIR

MERCIA ASSET MANAGEMENT PLC

(Incorporated and registered in England and Wales with registered number 09223445)

Directors:

Ian Metcalfe (*Non-executive Chair*)
Dr. Mark Payton (*Chief Executive Officer*)
Martin Glanfield (*Chief Financial Officer*)
Julian Viggars (*Chief Investment Officer*)
Ray Chamberlain (*Non-executive Director*)
Dr. Jonathan Pell (*Non-executive Director*)
Caroline Plumb OBE (*Non-executive Director*)

Registered Office:

Forward House
17 High Street
Henley-in-Arden
Warwickshire
B95 5AA

4 December 2019

For the attention of Shareholders

Dear Shareholder

Placing of 120,000,000 new Ordinary Shares at 25 pence per Ordinary Share and proposed acquisition of the NVM VCT fund management business and Notice of General Meeting

1. Introduction

The Company announced on 3 December 2019 that it has entered into a conditional agreement to acquire the VCT fund management business of NVM Private Equity LLP ("**NVM**" and the "**NVM VCT Business**") for a total maximum consideration of up to £25.0million, comprising a combination of cash and new Ordinary Shares (the "**Acquisition**"). The NVM VCT Business consists primarily of the management contracts relating to three VCT funds: Northern Venture Trust PLC, Northern 2 PLC VCT and Northern 3 PLC VCT (together the "**NVM VCT Funds**"), with an approximate aggregate £270million of assets under management ("**AuM**").

The Acquisition consideration initially comprises £12.4million in cash and 16,800,000 new Ordinary Shares to be issued at £0.25 per new Ordinary Share (the "**Placing Price**") (£4.2million) (the "**Initial Consideration Shares**") and together the "**Initial Consideration**", payable on Completion. Mercia has also agreed to pay deferred contingent consideration, subject to certain deferred conditions being satisfied, of up to £6.3million in cash, payable in three equal installments on the first, second and third anniversaries of Completion and, subject to certain other deferred conditions being satisfied by the third anniversary of Completion, up to £2.1million worth of Ordinary Shares.

The Company also announced, on 3 December 2019, a conditional placing of 120,000,000 Placing Shares, at the Placing Price. Once completed, the gross proceeds (before expenses) from the Placing will be £30.0million. The Placing Price represents a discount of c.21.9 per cent. to the closing mid-market price of 32 pence per Ordinary Share on 2 December 2019 (being the last practical date prior to the announcement of the Placing and the Acquisition). The Placing Price also represents a discount of c.0.87 per cent. to the volume weighted average price per Ordinary Share during the two month period ended on 2 December 2019.

The purpose of the Placing is to fund the cash component of the Initial Consideration and related transaction expenses, in addition to providing further balance sheet growth capital in order to enable the Company to continue to invest in the existing direct investment portfolio as well as funding new direct investment opportunities that the Board expects to deliver attractive returns in the future.

The allotment and issue of the New Ordinary Shares related to the Placing and the Acquisition is conditional, *inter alia*, upon the Company obtaining approval of Shareholders at the General Meeting to grant the Directors the authority to allot such New Ordinary Shares and the Deferred Consideration Shares and to

disapply statutory pre-emption rights which would otherwise apply to such allotments. The General Meeting, notice of which is set out at the back of this document, has been convened for 10.00 a.m. on 20 December 2019. Subject, *inter alia*, to the passing of the Resolutions and the Placing Agreement becoming unconditional (save only for Admission), it is anticipated that the Placing Shares will be admitted to trading on AIM at 8.00 a.m. on 23 December 2019. It is anticipated that the Initial Consideration Shares will be admitted to trading on AIM by no later than 8.00 a.m. on 30 December 2019.

The purpose of this document is to provide Shareholders with information regarding, *inter alia*, the rationale for the Acquisition and the Placing, to explain why the Board considers the Acquisition and the Placing to be in the best interests of the Company and its Shareholders, and why the Directors unanimously recommend that you vote in favour of the Resolutions to be proposed at the General Meeting, as they intend to do in respect of their beneficial interests amounting, in aggregate, to 68,482,722 Ordinary Shares representing c.22.6 per cent. of the Existing Ordinary Shares.

If Resolutions 1 and 2 are not passed, the Company will be unable to issue the proposed New Ordinary Shares and neither the Placing nor the Acquisition will proceed. Further information about the Acquisition and Placing, in addition to the Company's current trading and prospects is set out below.

You will find set out at the end of this Document the Notice of General Meeting, to be held at Forward House, 17 High Street, Henley-in-Arden, Warwickshire B95 5AA at 10.00 a.m. on 20 December 2019, at which the Resolutions will be proposed in the case of Resolutions 1 and 3 as ordinary resolutions and in the case of Resolutions 2 and 4 as special resolutions.

The Company also announced its interim results for the six months ended 30 September 2019 on 3 December 2019. A copy of the Company's interim results is available on the Company's website at <https://www.mercia.co.uk>.

2. Background on the Company

Mercia is a proactive, specialist asset manager providing capital to high growth SMEs, predominantly in the Midlands, the North of England and Scotland; regions with a large, growing and under-served need for capital. Mercia offers high growth regional SMEs a complete capital solution including seed and venture capital, private equity, debt and its proprietary balance sheet capital, as well as ongoing management support.

The Company was founded in 2014 (although its origins go back to 1982) and was admitted to trading on AIM in December 2014. Today, Mercia has c.£500million in AuM generating c.£7.3million contracted revenues in 2019. Mercia has eight offices across the UK regions, 85 employees, including a highly experienced investment team, and a network of 19 university partnerships which together generate strong deal flow, as reflected in c.2,800 investment requests received during the past 12 months.

Mercia manages third-party funds which have a combined portfolio of c.323 companies and invests directly into selected businesses derived from these funds. As at 30 September 2019, the Company had third-party funds under management of c.£361million, on which it earns a blend of fund management fees, initial management fees, portfolio directors' fees, business services income and periodic carried interest. In addition, the Company had a diversified portfolio of 23 direct investments across a number of technology sectors at different stages of maturity. The direct investment portfolio had a total value of £102.0million as at 30 September 2019. The Company earns initial management fees and recurring portfolio directors' fees on its portfolio of direct investments. All current direct investments have emanated from its third-party managed funds.

Mercia's differentiated business model

Mercia's business model is to initially provide businesses with seed and venture capital from its managed funds. It then invests directly from its own balance sheet into a small number of these businesses which are considered by Mercia to be "emerging stars", with a view to realising value, primarily through cash exits. The Company is also able to provide private equity and debt funding from its third-party managed funds to more established and profitable businesses, giving Mercia multiple opportunities to support the growth of its portfolio companies and deliver attractive returns for its investors.

The Company's direct investments are businesses which have reached key development milestones and show significant growth potential, mitigating in part the risk for the Company's shareholders. Mercia is active in supporting each of the businesses in which it invests, taking a board position and offering access to Mercia's Platform, an internal team of talent resourcing, corporate advisory, legal and research expertise. The Company believes that these value-added services help to support Mercia's investee companies in achieving their growth prospects and ambitions.

Mercia's vision and strategy

Mercia's vision is to become the leading regional capital provider to high growth SMEs in the UK. Mercia has the following strategic goals which it aims to achieve within the next three years:

- to be the most active investor in its target market with up to 20 per cent. market share;
- to expand the Company's third-party funds under management to at least £1.0billion over the medium term;
- to achieve operating profitability before balance sheet fair value movement and cash realisations;
- to achieve a 15 per cent. IRR in third-party and balance sheet equity investments; and
- to 'evergreen' its balance sheet so that the Company's direct investment activities are funded by periodic cash realisations from its direct investment portfolio.

The Company aims to achieve above industry returns for its shareholders and for investors in its managed funds through the proactive, timely, local delivery of the most appropriate form of capital to promising businesses and through active investment management and support.

Investment track record

Direct Investments

Since Mercia's IPO in December 2014, the Company has invested £89.5million into its balance sheet portfolio of direct investments and £1.1million as a cornerstone investor in four of its managed funds. Its direct investment activity has returned c.£14million in cash to date and the IRR of the direct investment portfolio is currently c.14 per cent.

Third-Party Managed Funds

Mercia has third-party funds under management of c.£361million. To date, Mercia's closed and legacy funds have returned c.£176million, at a ratio of c.2.4 times the original capital invested.

3. Proposed Acquisition of the NVM VCT Business

The Company has conditionally agreed to acquire the NVM VCT Business, with the proposed purchase consisting primarily of management contracts related to the NVM VCT Funds from NVM for an aggregate maximum consideration of up to £25.0million (including, subject to certain deferred conditions being satisfied, up to £8.4million of deferred consideration), comprised of a combination of cash and new Ordinary Shares in Mercia, pursuant to the Asset Purchase Agreement. Further details outlining the terms of the proposed Acquisition are set out in paragraph 5 below.

NVM is an established investment firm with a presence across the UK, targeting management buy-outs and growth investment in businesses led by high quality management teams. NVM manages more than £430.0million of funds through the NVM VCT Funds as well as through a £142.0million private equity fund.

The NVM VCT Funds have c.£270million AUM (as at 30 September 2019), current liquidity of £83.0million and a combined portfolio of c.60 companies of which 17 are listed, 27 are private venture and 16 are private equity. The holding value of the combined portfolio is £92.0million. The NVM VCT Funds have delivered a 2.2x NAV return over a 10 year period.

The NVM VCT Funds have a strong fundraising track record and, as announced by each NVM VCT Fund on 10 October 2019, the NVM VCT Funds have stated their intention to raise up to £40.0million of new funds during the first quarter of 2020 (calendar year). Further information relating to the NVM VCT Funds can be found at: <https://nvm.co.uk/investor-area/vcts/>.

The proposed Acquisition will be primarily effected through the novation of the fund management agreement for each of the three NVM VCT Funds (the “**VCT Management Agreements**”) to MFM, the Company’s wholly owned and FCA regulated subsidiary, pursuant to the Novation Agreements and the transfer of seven professionals responsible for making and managing the investments. The two venture focused NVM partners will also join Mercia on Completion. The Acquisition excludes, *inter alia*, NVM’s cash and property, as well as back and middle office staff. In the financial year ended 31 March 2019, NVM generated £7.2million in revenues and c.£4million EBITDA from the VCT Management Agreements.

The Company has developed a detailed integration plan to provide continuity and realise the benefits from the Acquisition.

4. Reasons for the proposed Placing and Acquisition

The Directors believe that the proposed Placing will enable the Company to significantly progress its strategy by funding the Initial Consideration for the Acquisition and by strengthening the Company’s balance sheet, allowing it to continue to be able to invest in its existing portfolio companies to support their growth and to execute new direct investment opportunities.

The net proceeds of the Placing will be used to fund the cash component of the Initial Consideration and related transaction expenses, in addition to providing further balance sheet growth capital in order to enable the Company to continue to invest in selected companies identified as “emerging stars” which sit within its third-party managed funds as well as funding new direct investment opportunities that are expected to deliver attractive returns in the future.

The Company currently intends to use the net proceeds of the Placing as outlined below:

- Acquisition: c.£15million to fund the Initial Cash Consideration and related expenses for the Acquisition and the Issue. The Company expects that the Deferred Consideration payable in cash in relation to the Acquisition will, if the performance criteria are met, be funded by the Group’s future expected cash flows;
- Existing direct investments: up to c.£10million to support the growth and development of Mercia’s existing direct investments in FY2021; and
- New direct investments: up to c.£5million to make new direct investments from the Group’s managed funds portfolio in FY2021.

The Board currently expects that the net proceeds of the Placing will fully fund Mercia’s investment pipeline and “evergreen” the balance sheet with future investments funded from periodic portfolio cash realisations.

Rationale for the Acquisition

The Directors believe that the Acquisition will significantly enhance the scale, financial profile and future financial returns of the Group, whilst strengthening its ability to raise and win new fund mandates in order to continue to grow its fund management business. The Acquisition is expected to be earnings enhancing within the first year of ownership (excluding the impact from the amortisation of intangibles related to the Acquisition) and represents an important strategic milestone in the Group’s ambitions, with the key points underlying the rationale for the Acquisition outlined below:

- the Enlarged Group will become a leading provider of seed and growth capital within Mercia’s regional target venture market;
- the Acquisition will immediately increase the Group’s AuM by more than 50 per cent. through the addition of c.£270million AuM via NVM’s managed funds, with the Enlarged Group’s total AuM expected to be c.£770million on Completion;
- the Acquisition moves Mercia significantly closer to achieving its strategic milestone of managing £1billion in AuM;
- the Enlarged Group is expected to achieve operating profitability (Net Income before realisations, fair value movements, share-based payments and amortisation) in the first year post Completion;
- the Acquisition increases Mercia’s turnover from £10.7million to £17.9million and Net Income from £(1.4million) to £2.6million on a *pro forma* FY2019 basis;

- c.70 per cent. of the Enlarged Group's fund management contracted revenue is expected to be recurring in nature in the first year post Completion;
- the Acquisition expands the Enlarged Group's liquidity to deploy into high growth regional SMEs via its third-party managed funds;
- the Acquisition provides a broader origination network with the NVM VCT Funds' complementary focus on the Midlands, the North of England and Scotland;
- the Acquisition expands the universe of direct investment opportunities for the Company through the NVM VCT Funds' underlying portfolios;
- the Acquisition provides greater awareness of Mercia by the NVM VCT Funds' complementary distribution network, which may also potentially expand the Company's EIS investor base; and
- the Acquisition brings additional skilled investment talent into Mercia's business.

Pro forma AuM and liquidity post Completion of the Acquisition

Venture	Vimba 3x VCTs	Private equity	Debt	Balance sheet
Total portfolio 194	Total portfolio 60	Total portfolio 17	Total portfolio 120	Total portfolio 23
Total FuM £210m	Total FuM £270m	Total FuM £60m	Total FuM £91m	NAV £128m
Total invested 2002-2019 £182m	Total venture invested 2016-2019 £92m	Total invested 2004-2019 £48m	Total invested 2002-2019 £82m	Total invested 2014-2019 £95m
Returns 'to date' £120m	NAV total return (10 yrs) 2.2x	Returns 'to date' £27m	Returns 'to date' £62m	Returns 'to date' £14m
Liquidity £69m	Liquidity £83m	Liquidity £26m	Liquidity £53m	Liquidity £18m

(Source: the Company, 30 September 2019)

Deployment of funds into existing balance sheet investments

Mercia is active in each of the businesses in which it invests, taking a board position in each equity investment to ensure that it provides support throughout the investee company's journey. It also stays actively engaged with each of the businesses to which it lends. This portfolio support also includes input from Mercia's platform, an internal team of talent resourcing, corporate advisory, legal and research expertise. We believe these value-added services help investee companies to accelerate their growth prospects.

At the time of the publication of this document, Mercia has a direct investment portfolio consisting of 23 high growth SME companies and has invested in 17 portfolio companies during the 2020 financial year to date. As these businesses mature, Mercia aims to maintain material equity stakes in order to maximise returns from its early capital investment and management support. The Company has conditionally raised proceeds from the Placing which will enable it to continue to invest in the most promising businesses both emerging from its managed funds to accelerate and support their growth, as well as continuing to support companies in the existing direct portfolio.

The Directors have identified specific investment requirements within its existing portfolio and currently expects to allocate c.£10million to eight existing direct investments in FY2021.

Funding new direct investments

Mercia has a diverse origination network consisting of 19 university partnerships and a broad professional network for sourcing investment opportunities, which will be further strengthened and broadened by the proposed acquisition of the NVM VCT Business. The proposed net proceeds from the Placing will enable the Company to continue to make new direct investments in the most promising businesses emerging from its managed funds in line with its investment model. The Directors have identified a pipeline of potential new direct investments and currently expect to allocate c.£5million into five new direct investments identified from a pool of c.80 third-party investment candidates in its third-party funds.

5. Key terms of the Acquisition

The Asset Purchase Agreement

NVM, MFM and the Company entered into the Asset Purchase Agreement on 3 December 2019 pursuant to which NVM has agreed to sell the NVM VCT Business to MFM for an aggregate maximum consideration of up to £25.0million (the “**Consideration**”). Under the Asset Purchase Agreement, the Company is acting as guarantor in respect of the Consideration.

The Consideration is comprised of: (i) an initial consideration of £12.4million in cash and MFM procuring the issue of 16,800,000 Ordinary Shares to NVM (£4.2million at the Placing Price) (the “**Initial Consideration Shares**” and together the “**Initial Consideration**”), payable on Completion; and (ii) a deferred consideration of up to £6.3million in cash, payable in three equal installments on the first, second and third anniversaries of Completion, provided no termination notice has been served by any of the VCTs before each respective anniversary payment date and, subject to certain other deferred conditions being satisfied at the third anniversary of Completion (see below), MFM procuring the issue of up to £2.1million worth of Ordinary Shares to NVM to be determined based on the average of the daily closing mid-market price for an Ordinary Share for each of the five days immediately preceding the date of issue (the “**Deferred Consideration Shares**” and together the “**Deferred Consideration**”).

The Company will allot and issue 50 per cent. of the Deferred Consideration Shares if the Company receives at least £16.0million of fees from the VCT Management Agreements in the three years after Completion. The remaining 50 per cent. of the Deferred Consideration Shares shall be allotted and issued if, during the same period, the VCTs issue at least £60.0million worth of new shares to investors.

If there is any adjustment event (including the completion of any offer or scheme where one of the VCTs is acquired by another venture capital trust or other vehicle (excluding any other VCT) that is being managed or advised by the Group) during the three years following Completion, the parties have agreed that the Deferred Consideration shall be adjusted so that neither party shall be prejudiced regarding either calculation or payment. There is no current expectation that an adjustment event will occur.

The Asset Purchase Agreement is conditional, *inter alia*, on:

- the Placing Agreement becoming unconditional in accordance with its terms and not having been terminated;
- the passing of Resolutions 1 and 2 at the General Meeting and Admission;
- no termination notice of any VCT Management Agreement having been received or served;
- the Novation Agreements becoming unconditional in accordance with their terms and not having been terminated;
- the Transitional Services Agreement and the Co-operation Agreement becoming unconditional in accordance with their respective terms and not having been terminated;
- no material adverse change to the NVM VCT Business; and
- no litigation having been commenced or threatened in relation to the NVM VCT Business.

Under the Asset Purchase Agreement, NVM has agreed, subject to certain exceptions (including with the consent of the Company), to a lock-in period of 18 months following the date of issue of the Initial Consideration Shares and six months following the date of issue of the Deferred Consideration Shares and an orderly market period of 12 months following the expiry of both lock-in periods.

The Asset Purchase Agreement constitutes a relevant transfer for the purposes of TUPE and accordingly, up to seven employees of NVM will be transferred to the Group with effect from Completion. In addition, Charles Winward and Tim Levett, partners at NVM, have entered into a service agreement with MFM and a consultancy agreement with the Company respectively and both of which will come into effect on Completion.

The Asset Purchase Agreement also includes non-compete covenants on NVM for a period of three years following Completion.

Consideration Shares

The issue of the Consideration Shares is conditional, *inter alia*, on the approval of Resolutions 1 and 2 at the General Meeting of the Company to be held at 10.00 a.m. on 20 December 2019. It is anticipated that the Initial Consideration Shares will be admitted to trading on AIM by no later than 8.00 a.m. on 30 December 2019.

The Consideration Shares will, when issued, be credited as fully paid and will rank *pari passu* in all respects with the existing Ordinary Shares including the right to receive all dividends and other distributions declared, made or paid after their date of issue.

Transitional Services Agreement

NVM and MFM entered into the Transitional Services Agreement on 3 December 2019 pursuant to which NVM has, following Completion, agreed to provide certain back office services to MFM on a transitional basis in consideration for a fixed annual fee. The Transitional Services Agreement is terminable upon either party giving not less than six months' notice, such notice not to be given any earlier than 30 September 2021 (or earlier in certain circumstances).

Co-operation Agreement

MFM and NVM entered into the Co-operation Agreement on 3 December 2019 pursuant to which MFM has, following Completion, appointed NVM to provide certain portfolio management and other services in respect of certain NVM VCT Funds' investee companies in consideration for a fixed annual fee. The Co-operation Agreement will terminate, save in respect of certain assets (which NVM will continue to jointly manage), on 31 March 2022 (or earlier in certain circumstances).

6. Current trading and outlook

The Group announced its interim results for the six months ended 30 September 2019 on 3 December 2019. During the first six months of the year, the Group delivered financial performance in line with the Board's expectations, with continued good overall progress in its direct investment portfolio. The Group reported revenues of £5.5million (2018: £5.3million) in the first half year, with this mainly generated from its fund management activities. The Group reported net fair value movements of £3.2million (2018: £2.6million) and NAV per share of 42.3p (2018: 41.3p). The Group's interim results can be found on its website: <https://www.mercia.co.uk/>.

Since the interim period end, positive trading has continued into the second half of the financial year, underpinned by a good performance in the Company's third-party fund management activities and continued overall progress from the Company's portfolio of direct investments, in line with the Board's expectations.

By completing the proposed Acquisition and Placing, the Company expects to further improve the quality of earnings with higher recurring revenues and achieve Net Income profitability in the first full year of ownership. The Company now aspires to achieve its stated target of £1.0billion in AuM within the next two years.

7. Details of the Placing

120,000,000 Placing Shares have been conditionally placed with placees at the Placing Price to raise gross proceeds of £30.0million. The Placing is not being underwritten.

The Placing Price of 25 pence per Ordinary Share represents a discount of c.21.9 per cent. to the closing mid-market price of 32 pence per Ordinary Share on 2 December 2019 (being the last practical date prior to the announcement of the Placing and the Acquisition). The Placing Price also represents a discount of c.0.87 per cent. to the volume weighted average price per Ordinary Share during the two month period ended on 2 December 2019.

The placing of the Placing Shares is conditional, *inter alia*, upon:

- the approval of Resolutions 1 and 2 at the General Meeting of the Company to be held at 10.00 a.m. on 20 December 2019;
- the Asset Purchase Agreement not having been terminated or lapsed prior to Admission and each party thereto having fully complied with their respective obligations thereunder to the extent that such obligations are to be performed before Admission and there having occurred no default or breach by any party to the terms of the Asset Purchase Agreement;
- the Placing Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms; and
- Admission of the Placing Shares to trading on AIM. It is expected that Admission of the Placing Shares will occur by no later than 8.00 a.m. on 23 December 2019.

The Directors intend to vote in favour of each of the Resolutions in respect of their aggregate beneficial interest of 68,482,722 Ordinary Shares, representing c.22.6 per cent. of the Existing Ordinary Shares.

8. Placing Agreement

Pursuant to the terms of the Placing Agreement, Canaccord Genuity and N+1 Singer, as agents for the Company, each conditionally agree to use their reasonable endeavours to place the Placing Shares on a non-underwritten basis at the Placing Price.

The Placing Agreement contains certain warranties from the Company in favour of Canaccord Genuity and N+1 Singer in relation to, *inter alia*, certain matters relating to the Company and its business. In addition, the Company has agreed to indemnify Canaccord Genuity and N+1 Singer in relation to certain liabilities that either may incur in respect of the Placing. Canaccord Genuity and N+1 Singer each has the right to terminate the Placing Agreement in certain circumstances prior to Admission including, without limitation, in the event of a material breach of the Company to comply in any material respect with its obligations under the Placing Agreement, the occurrence of a *force majeure* event or a material adverse change in the financial condition of the Group. The Placing Agreement is also subject to various conditions including the Asset Purchase Agreement not having become incapable of becoming unconditional or having been terminated or lapsed prior to Admission.

The Placing Shares will be admitted to trading on AIM before completion of the Acquisition and the Asset Purchase Agreement will not be unconditional as at the date of Admission. If, following such time but before completion of the Acquisition, there is a material breach of warranty under the Asset Purchase Agreement by NVM or one or more of the above conditions in the Asset Purchase Agreement are not satisfied (or waived), the Company will have the right to terminate the Asset Purchase Agreement and, if that were the case, the Acquisition may not go ahead, including in circumstances where the Placing has completed. If the Asset Purchase Agreement is terminated, the Company, in consultation with Canaccord Genuity and N+1 Singer, will formulate proposals to be put to Shareholders as to whether some or all of the net proceeds of the Placing should be returned to Shareholders together with the timings and structure of any such return.

The Placing Agreement provides, *inter alia*, for payment by the Company to Canaccord Genuity and N+1 Singer commissions based on the number of Placing Shares placed by Canaccord Genuity and N+1 Singer multiplied by the Placing Price.

The Company will bear all other expenses of, and incidental to, the Placing including a corporate finance fee payable to Canaccord Genuity, the fees of the London Stock Exchange, printing costs, registrar's fees,

all legal and accounting fees of the Company, the legal fees of Canaccord Genuity and N+1 Singer in relation to the Placing and all stamp duty and other taxes and duties payable.

9. Admission and dealings

Application will be made to the London Stock Exchange for the New Ordinary Shares issued pursuant to the Placing and the Acquisition to be admitted to trading on AIM. The New Ordinary Shares will, when issued, rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive dividends and other distributions declared, made or paid after their date of issue.

It is expected that Admission will become effective and that dealings in the Placing Shares will commence at 8.00 a.m. on 23 December 2019.

It is anticipated that admission will become effective and dealings in the Initial Consideration Shares will commence by no later than 8.00 a.m. on 30 December 2019.

10. General Meeting

A notice convening the General Meeting to be held at Forward House, 17 High Street, Henley-in-Arden, Warwickshire B95 5AA at 10.00 a.m. on 20 December 2019 is set out at the end of this document. At the General Meeting, the following Resolutions will be proposed:

Resolutions relating to the Placing and the Acquisition (Resolutions 1 and 2)

Resolutions 1 and 2 will be proposed to grant the Directors the authority to allot the New Ordinary Shares pursuant to the Placing and the Acquisition (which are equivalent, excluding any Deferred Consideration Shares, to c.31.08 per cent. of the Enlarged Share Capital) without first offering them to existing Shareholders on a pre-emptive basis.

The Directors believe it would not be in the Shareholders' best interests to incur the significant additional expense that would be required to implement a fully pre-emptive offer of Ordinary Shares to Shareholders. The Directors have therefore concluded that seeking general authority from Shareholders to issue the New Ordinary Shares other than on a pre-emptive basis is the most flexible and cost effective method available to the Company.

Resolutions relating to general authority to allot Ordinary Shares and waiver of pre-emption rights (Resolutions 3 and 4)

Resolutions 3 and 4 will, if passed, renew the authorities given to the Directors to allot Ordinary Shares on a non-pre-emptive basis at this year's Annual General Meeting on 24 September 2019, but reflecting the increased number of Ordinary Shares comprised in the Enlarged Issued Share Capital broadly on the same terms as the equivalent resolution passed at that meeting.

The authority sought under these Resolutions will expire at the earlier of the conclusion of the Annual General Meeting of the Company in 2020 or 30 September 2020.

11. Directors' and PDMRs' participation in the Placing

The following Directors and PDMRs are subscribing for the following Ordinary Shares pursuant to the Placing:

<i>Director</i>	<i>No. of Ordinary Shares subscribed for pursuant to the Placing</i>	<i>Resulting holding of Ordinary Shares</i>	<i>% Enlarged Share Capital</i>
Ian Metcalfe	60,000	192,609	0.04
Dr Mark Payton	100,000	6,799,653	1.54
Martin Glanfield*	200,000	543,369	0.12
Julian Viggars*	100,000	582,325	0.13
Ray Chamberlain	4,000,000	64,824,766	14.73
Caroline Plumb OBE	40,000	40,000	0.01
Peter Dines**	100,000	186,551	0.04

*To be held via a SIPP.

**A PDMR and non-Board Director.

12. Action to be taken in relation to the General Meeting

Shareholders should be aware that if the Resolutions are not passed, the Placing and the Acquisition will not proceed.

A Form of Proxy for use at the General Meeting is enclosed with this document. Whether or not you propose to attend the General Meeting in person, you are requested to complete the Form of Proxy and to return it to the Company's registrar, SLC Registrars at Elder House, St Georges Business Park, Brooklands Road, Weybridge, Surrey KT13 0TS so as to arrive not later than 10.00 a.m. on 18 December 2019. Unless the Form of Proxy is received by this date and time, it will be invalid. The completion and return of a Form of Proxy will not preclude you from attending the General Meeting and voting in person if you so wish.

13. Additional information

Your attention is drawn to the risk factors set out in Part 2 of this Document. Shareholders are advised to read the whole of this Document and not rely solely on the summary information presented in this letter.

14. Recommendation

The Directors believe that the Placing and the Acquisition, as each described in this document, are in the best interests of the Company and Shareholders as a whole. Consequently, the Directors unanimously recommend that you vote in favour of the Resolutions, as they intend to do themselves in respect of their beneficial interests amounting, in aggregate, to 68,482,722 Ordinary Shares representing c.22.6 per cent. of the Existing Ordinary Shares.

Yours faithfully

Ian Metcalfe
Non-executive Chair
4 December 2019

PART 2

RISK FACTORS

Shareholders should be aware that an investment in the Company 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, which are not presented in any order of priority and may not be exhaustive.

The following risk factors are all those known by the Directors which are considered to be material in their opinion. 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 Company's business, financial condition and results of operations.

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

It should be noted that the Company is relying on an exemption from issuing a prospectus in section 86 and paragraph 9 of Schedule 11A of the FSMA (as amended) resulting in this document not being considered to be a prospectus. Consequently, this document does not include all information that an investor would receive if it were a prospectus.

References to the Company are also deemed to include, where appropriate, each member of the Group.

General Risks

An investment in the Company is only suitable for investors capable of evaluating the risks and merits of such investment and who have sufficient resources to bear any loss that may result from the investment. A prospective investor should consider with care whether an investment in the Company is suitable for them in the light of their personal circumstances and the financial resources available to them. The investment opportunity offered in this document may not be suitable for all recipients of this document. Investors are therefore strongly recommended to consult an investment adviser authorised under FSMA, or such other similar body in their jurisdiction, who specialises in advising on investments of this nature before making their decision to invest.

Investment in the Company should not be regarded as short term in nature. There can be no guarantee that any appreciation in the value of the Company's investments will occur or that the commercial objectives of the Company will be achieved. Investors may not get back the full amount initially invested.

The price of shares and the income derived from them can go down as well as up. Past performance is not necessarily a guide to the future.

Risks relating to the Group

The departure of some or all of the Executive Directors and other key personnel may significantly affect prospects

The Company depends on the diligence, skill, judgement and business contacts of its Executive Directors and other key personnel and the information and deal flow they generate during the normal course of their activities. The Company's future success depends on the continued service of the existing individuals and its ability to strategically recruit, retain and motivate new talented personnel. However, the Company may not be successful in its efforts to recruit, retain and motivate the required personnel as the market for qualified successful investment professionals is extremely competitive. In the event of the departure of one or more of the Executive Directors or other key personnel, there is no guarantee that the Company would be able to recruit a suitable replacement or that any delay in doing so would not adversely affect the performance of the Group.

MFM and/or Enterprise Ventures may cease to be authorised by the FCA

MFM is authorised and regulated by the FCA as a small authorised UK AIFM and will, following Completion act as UK AIFM to two of the three NVM VCT Funds (the third being self-managed). Enterprise Ventures, which is a wholly-owned subsidiary of the Company, is also authorised and regulated by the FCA as a small authorised UK AIFM and manage the Group's third-party funds. Should MFM or Enterprise Ventures cease to be authorised and regulated by the FCA as a small authorised UK AIFM then each would no longer be authorised to act as the investment manager of the respective funds they manage. If that was to occur, the Group would need to appoint a replacement investment manager and could potentially lose one of its revenue streams which would adversely affect the business, results of operations or financial condition of the Group.

The Group generates limited revenue and there is no guarantee of a return on exit of investments

The ability of the Company to exit its position within each direct investment depends in part on the market's appetite for investments in scientific and technology companies with often a limited trading history, as well as valuations in the market sectors in which its businesses participate. As such, there can be no guarantee that the investment made to date and which the Company expects to be made going forward will produce returns. Returns which are lower than expected, or non-existent, could have a material adverse effect on the business, financial condition, results of operations and prospects of the Group.

The market's demand for investment in early stage companies may impact the Company's ability to realise equity returns

Many of the Company's balance sheet investments will have funding requirements in the future. The success of these investments may be influenced by the market's appetite for investment in early stage companies.

Changes in legislation and policy may impact the resources and technology available to the Group

There may be changes in English law which impact the operation of the Group. The potential for change may be heightened by a change in government following the general election scheduled for 12 December 2019. A change in legislation or policy (including any changes to or removal of VCT or EIS tax relief) may: (i) adversely affect the monies and resources available to the Group and/or the funds it manages; (ii) affect their entitlement to enter into funding agreements under which the businesses would have a role in exploiting the intellectual property; or (iii) affect the right of the universities and research institutions to transfer intellectual property to, or to share revenues with, Mercia's businesses. Changes in government policy or legislation (including changes to tax legislation) or other terms upon which the academics are incentivised could make it commercially unattractive for research academics to participate in the commercialisation of intellectual property which they create.

Investee companies may fail, lose value or fail to generate the anticipated level of returns

Due to the early stage nature of the Company's activities, any of the Company's businesses, even those which are in more mature stages of development or in which the Company has invested significant capital, may fail or not succeed as anticipated, resulting in an impairment of the Group's value and/or profitability. Where a project has failed to deliver sufficient additional proof points and no longer supports on-going development and commercialisation activity and cannot be successfully redirected to an alternative commercial path, the Company will look to terminate the investment early.

United Kingdom exit from the European Union

The determination by the United Kingdom to exit the European Union pursuant to Article 50 of the Treaty of Lisbon ("**Brexit**"), means the United Kingdom could leave the European Union no later than 31 January 2020. Brexit could have a significant impact on the Company. The extent of the impact would depend in part on the nature of the arrangements that are put in place between the UK and the EU following Brexit and the extent to which the UK continues to apply laws that are based on EU legislation. In addition, the macroeconomic effect of Brexit on the Company's business is unknown. As such, it is not possible to state the impact that Brexit would have on the Company.

Risks relating to the Acquisition

The Asset Purchase Agreement is conditional on the Placing which is subject to Shareholder approval

The Asset Purchase Agreement is conditional upon the Placing which requires Shareholders approving Resolutions 1 and 2. There can be no assurance that such approval will be obtained. The Board considers that the Asset Purchase Agreement is in the best interests of the Company and Shareholders as a whole. If the Asset Purchase Agreement does not become effective due to Shareholder approval not being obtained, the Acquisition will not go ahead.

Following Admission, the Company may have a right to terminate the Asset Purchase Agreement

The Placing Shares will be admitted to trading on AIM before completion of the Acquisition and the Asset Purchase Agreement will not be unconditional as at the date of such Admission. If, following such time but before completion of the Acquisition, there is a material breach of warranty under the Asset Purchase Agreement by the Seller or one or more of the conditions therein are not satisfied (or waived), the Company will have the right to terminate the Asset Purchase Agreement and, if that were the case, the Acquisition may not go ahead, including in circumstances where the Placing has completed. If the Asset Purchase Agreement is terminated, the Company, in consultation with Canaccord Genuity and N+1 Singer, will formulate proposals to be put to Shareholders as to whether some or all of the net proceeds of the Placing should be returned to Shareholders together with the timings and structure of any such return.

The boards of the NVM VCT Funds may terminate the VCT Management Agreements

The VCT Management Agreements are subject to a 12 months' notice period. As part of the Acquisition, the boards of each NVM VCT Fund have consented to novate the VCT Management Agreements to MFM. However, no guarantee can be given that one or more of the boards of each NVM VCT Fund will not in the future serve notice which could then have a material adverse impact on the Group.

The NVM VCT Funds may be unsuccessful in raising new funds

Each NVM VCT Fund's business model involves the periodic raising of funds from shareholders to facilitate investments. The NVM VCT Funds have each announced the intention to raise up to £40.0million in total in the first quarter of 2020. The NVM VCT Funds may be unsuccessful in this or future fundraisings which would have an adverse effect on the ongoing value of the NVM VCT Funds and revenue earned by the Group under the VCT Management Agreements.

Risks relating to the Ordinary Shares

Suitability

An investment in Ordinary Shares may not be suitable for all recipients of this document, and is only appropriate for investors capable of evaluating the risks (including the risk of capital loss) and merits of such investment and who have sufficient resources to sustain a total loss of their investment. An investment in Ordinary Shares should be seen as long-term in nature and complementary to investments in a range of other financial assets and should only constitute part of a diversified investment portfolio. Potential investors should consider carefully whether investment in the New Ordinary Shares is suitable for them in the light of the information in this document and their personal circumstances. Before making any final decision, potential investors in any doubt should consult with an investment adviser authorised under FSMA who specialises in advising on investments of this nature.

Volatility in price of Ordinary Shares

The Placing Price may not be indicative of the market price for the New Ordinary Shares following Admission. The market price of the New Ordinary Shares could be volatile and subject to significant fluctuations due to a variety of factors, including changes in sentiment in the market regarding the Company, the sector or equities generally, any regulatory changes affecting the Group's operations, variations in the Group's operating results and/or business developments of the Group and/or its competitors, the operating and share price performance of other companies in the industries and markets in which the Group operates, news reports relating to trends in the Group's markets or the wider economy and the publication of research analysts' reports regarding the Company or the sector generally.

Liquidity of the Ordinary Shares and AIM generally

An investment in the Ordinary Shares is highly speculative and subject to a high degree of risk. Application will be made for the New Ordinary Shares to be traded on AIM. AIM is a market designed primarily for emerging or smaller companies. The rules of this market are less demanding than those of the Official List. Investments in shares traded on AIM carry a higher degree of risk than investments in shares quoted on the Official List. Neither the London Stock Exchange nor the FCA have examined this document for the purposes of Admission or otherwise. An investment in the Ordinary Shares may be difficult to realise and the price at which the Ordinary Shares will be traded and the price at which investors may realise their investment will be influenced by a large number of factors, some specific to the Group and its operations and some, which may affect quoted companies generally. Admission to AIM should not be taken as implying that there will be a liquid market for the Ordinary Shares. The market for shares in smaller public companies, such as the Company, is less liquid than for larger public companies. Consequently, the share price may be subject to greater fluctuation on small volumes of shares, and thus the Ordinary Shares may be difficult to sell at a particular price. The value of the Ordinary Shares may go down as well as up. Investors may therefore realise less than their original investment, or sustain a total loss of their investment. The Company is unable to predict when and if substantial numbers of Ordinary Shares will be sold in the open market following Admission. 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.

PART 3

MERCIA ASSET MANAGEMENT PLC

(Incorporated and registered in England and Wales with registered number 09223445)

NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting (“**GM**”) of Mercia Asset Management PLC (the “**Company**”) will be held at Forward House, 17 High Street, Henley-in-Arden, Warwickshire B95 5AA on 20 December 2019 at 10.00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions (which will be proposed, in the case of resolutions 1 and 3, as ordinary resolutions and, in the case of resolutions 2 and 4, as special resolutions):

ORDINARY RESOLUTION

1. That the Directors be and are hereby generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the “**Act**”) to exercise all powers of the Company to allot Ordinary shares of £0.00001 each in the capital of the Company (“**Ordinary Shares**”) up to an aggregate maximum nominal amount of £1,452.00 pursuant to the Placing and the Acquisition (as defined in the circular of the Company dated 4 December 2019) provided that this authority shall expire (unless renewed, varied or revoked by the Company in general meeting) on the earlier of the conclusion of the next annual general meeting of the Company and 30 September 2020.

SPECIAL RESOLUTION

2. That, subject to the passing of resolution 1, the Directors be and are hereby empowered pursuant to sections 570 and 573 of the Act to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred by resolution 1 above as if section 561(1) of the Act did not apply to such allotment, provided that this power shall be limited to the allotment up to an aggregate nominal amount of £1,452.00 and provided that this authority shall expire (unless renewed, varied or revoked by the Company in general meeting) on the earlier of the conclusion of the next annual general meeting of the Company and 30 September 2020.

ORDINARY RESOLUTION

3. That, subject to the passing of resolution 2, the Directors be and are hereby generally and unconditionally authorised pursuant to section 551 of the Act to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate maximum nominal amount of £440.11 provided that this authority shall expire (unless renewed, varied or revoked by the Company in general meeting) on the earlier of the conclusion of the next annual general meeting of the Company and 30 September 2020 save that the Company shall be entitled to make, prior to the expiry of such authority, any offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert any security into shares to be granted after the expiry of such authority and the Directors may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of such offer or agreement as if the authority conferred hereby had not expired. The authority granted by this resolution shall replace the existing authority to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company previously granted to the Directors at the annual general meeting of the Company held on 24 September 2019 pursuant to section 551 of the Act.

SPECIAL RESOLUTION

4. That, subject to the passing of resolution 3, the Directors be and are hereby empowered pursuant to sections 570 and 573 of the Act to allot equity securities (as defined in section 560 of the Act) for cash either pursuant to the authority conferred by resolution 3 above or by way of sale of treasury shares as if section 561(1) of the Act did not apply to such allotment, provided that this power shall be limited to the allotment and/or sale of equity securities up to an aggregate nominal amount of £440.11 and provided that this authority shall expire (unless renewed, varied or revoked by the Company in general

meeting) on the earlier of the conclusion of the next annual general meeting of the Company and 30 September 2020 save that the Company shall be entitled to make, prior the expiry of such authority, offers or arrangements which would or might require equity securities to be allotted and/or sold after such expiry, and the Directors may allot and/or sell equity securities in pursuance of any such offer or agreement as if the power conferred by this resolution had not expired. The authority granted by this resolution shall replace the existing authority previously granted to the Directors at the annual general meeting of the Company held on 24 September 2019 to allot equity securities for cash or by way of a sale of treasury shares as if section 561(1) of the Act did not apply.

Dated: 4 December 2019

Registered Office:

Forward House
17 High Street
Henley-in-Arden
Warwickshire
B95 5AA

By order of the Board:

Martin Glanfield
Secretary

Notes:

Proxies

1. A member is entitled to appoint one or more proxies to exercise all or any of the member's rights to attend, speak and vote at the GM. A proxy need not be a member of the Company and a member may appoint more than one proxy in relation to a meeting to attend, speak and vote on the same occasion provided that each proxy is appointed to exercise the rights attached to a different Ordinary Share or Ordinary Shares held by a member. To appoint more than one proxy, the proxy form should be photocopied and the name of the proxy to be appointed indicated on each form together with the number of Ordinary Shares that such proxy is appointed in respect of (which, in aggregate, should not exceed the number of Ordinary Shares held by the member). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
2. A form of proxy is enclosed with this notice. Forms of proxy may also be obtained on request from the Company's registered office. In order to be valid any proxy form appointing a proxy must be returned duly completed no later than 10.00 a.m. on 18 December 2019 (or, if the GM is adjourned, no later than 48 hours before the time fixed for the adjourned meeting), in hard copy form by post, by courier, or by hand to the Company's registrar, SLC Registrars at Elder House, St Georges Business Park, Brooklands Road, Weybridge, Surrey, KT13 0TS. Submission of a proxy appointment other such instrument or any CREST Proxy Instruction (as described in notes 4 to 7 below) will not preclude a member from attending and voting at the GM should they wish to do so. To direct your proxy on how to vote on the resolutions, mark the appropriate box on your proxy form with an 'x'. To abstain from voting on a resolution, select the relevant 'Vote withheld' box. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the GM.
3. Any power of attorney or any other authority under which your proxy form is signed (or a duly certified copy of such power or authority) must be returned to the office of the Company's registrar with your proxy form.

CREST members

4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the General Meeting by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
5. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear UK's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID 7RA01) not later than 48 hours (excluding bank holidays and weekends) before the time appointed for holding the General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
6. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
7. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Thresholds and entitlement to vote

8. To be passed, ordinary resolutions require a majority in favour of the votes cast in person or by proxy at the GM and special resolutions require a majority of not less than 75 per cent. of members who vote in person or by proxy at the GM. On a show of hands every shareholder who is present in person (or being a company is present by a representative not himself a shareholder) and who is allowed to vote at a general meeting shall have one vote. Upon a poll every member holding Ordinary Shares who is present in person or by proxy (or being a company is represented) shall have one vote for every Ordinary Share of which he is the registered holder.
9. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), specifies that only those members registered in the Register of Members of the Company at 6.30 p.m. on 18 December 2019 (or if the GM is adjourned, members entered on the Register of Members of the Company no later than 48 hours before the time fixed for the adjourned GM) shall be entitled to attend, speak and vote at the GM in respect of the number of Ordinary Shares registered in his name at that time. Changes to entries on the register of members of the Company after 6.30 p.m. on 18 December 2019 shall be disregarded in determining the rights of any person to attend, speak or vote at the GM.
10. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).
11. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same Ordinary Share.
12. As at 3 December 2019, being the latest practicable date before the publication of this notice of General Meeting, the Company's issued share capital consisted of 303,309,707 Ordinary Shares each carrying one vote. Therefore the total voting rights in the Company as at 3 December 2019 is 303,309,707.

