Proposal to restructure the Celtic Renewables Grangemouth plc Debentures

22 June 2022

Introduction

We, the directors of Celtic Renewables Grangemouth plc ("**CRG**"), are writing on behalf of CRG and further to our recent communication regarding your investment of debenture capital in CRG. As previously notified, we will not be in a position to repay the debenture capital (the "**Debenture Capital**", the amount originally invested) and the interest (the "**Debenture Interest**") (together the "**Debentures**") that is due to you on 30 June 2022, and we therefore need to ask you to restructure the Debentures.

CRG is the company that owns the Grangemouth plant (now called "**Caledon Green**") and Celtic Renewables Limited ("**CRL**") is our parent company that wholly owns CRG. We will refer to CRG and CRL together as the "**CR Group**".

We are asking you, our debenture investors in CRG, to vote on a proposal to convert all Debenture Capital into equity shares in CRL. The Debenture Interest would remain outstanding but the obligation to repay you will be taken on by CRL with a new maturity date of 31 December 2024. Full details of the proposal are in section 1 below.

Our intention has always been to repay your Debentures by a future refinancing, whereby CRG would raise new debt or equity finance which would then be used to repay the Debentures. However, as we explained in our previous communication, it has become increasingly clear that CRG will not be able to raise the amount of money needed in the timeframe required. We are incredibly disappointed that we are not able to realise this intention to repay the Debentures at this point, and we have been working closely with Abundance Investment Ltd ("**Abundance**") to explore all options and establish a restructure proposal which offers you, the Abundance investors, the best potential returns on your investment in the shortest timescale. We humbly ask that you consider this proposal, and we hope that you are able to support the restructure proposed.

We have also been through the options and this proposal to you with Scottish Enterprise (the senior lender to CRG) and our majority shareholders and investors in CRL. All have been collaborative and supportive and have endorsed this restructuring route to ensure CRG can continue while giving our debenture investors in CRG the opportunity to maximise their potential returns over an appropriate timeframe.

We have also included an overview of the other restructuring options we explored, more detail about the status of Caledon Green, and our future plans to grow the CR Group business, which you will benefit from if this proposal is approved. The sections included in this proposal are as follows:

1. Our restructuring proposal
2. Recap of key events and other options considered
3. The benefits of the restructuring proposal and holding shares in CRL
4. How we got to here and the current status of Caledon Green

5. Future growth for CRL and its exit plans
6. Voting process and next steps
7. Your questions answered
8. Appendix 1: Risk factors

The whole team at CR Group is incredibly grateful to all our investors for their support and patience to date, which has contributed in no small part to our determination to overcome these challenges and complete our first manufacturing plant at Caledon Green. The increased and concrete interest (see the news in section 5 about a potential plant in Speyside) in our business since its completion is validating the strong belief we have always had, both in terms of the scale of the opportunity in front of us and the positive impact we can have turning industrial residues into low-carbon, sustainable products.

Investors should consider carefully the risks and uncertainties described in Appendix 1, together with all of the other information in this proposal document, including the financial statements and the related notes. Please take advice from an appropriately qualified person if you are unsure.

We will be holding a webinar for debenture holders to give you an opportunity to hear directly from the directors of CRG. The details on when the webinar will be and how to join will be circulated by Abundance shortly.

1. Our restructuring proposal

We are asking our debenture investors in CRG to vote on a proposal that would see:

1. All obligations and liabilities of the Issuer under the Debenture Deed (including the obligation to repay the Debenture Capital (£6,319,746.19) and pay the Debenture Interest (£4,497,674.14)) transferred to CRL.
2. The Debenture Capital will then be immediately converted in full into equity (shares) in CRL.
3. The Debenture Deed would be amended with the Debenture Interest to be left outstanding for repayment by CRL by no later than 31 December 2024.
4. All second ranking securities granted by CRG to Abundance, as security trustee on behalf of the debenture investors, will be discharged.

For this proposal to be approved, debenture investors holding at least 75% of the aggregate principal under the Debentures need to give their approval.

Conversion of Debenture Capital in full

If approved, the proposal involves new shares in CRL being issued in exchange for the Debenture Capital on the following terms:

- The total amount to of Debenture Capital to be converted into shares, assuming completion on 30 June 2022, is £6,319,746.19;
- The conversion of all of the Debenture Capital will be based on a share price of £10 per share (the "**Conversion Price**"). This was the value of an ordinary share in CRL at the time of its last equity investment in January 2022. This means you will receive a number of shares that are equal in value to the outstanding Debenture Capital that is owed to you.
- On conversion of your Debenture Capital, you will be given what are called 'non-participating preference shares' which give downside protection that is not enjoyed by CRL's ordinary shareholders. These preference shares have the same standard voting rights as the ordinary shareholders, but on a capital return event such as the sale of the business of CRL,

the proceeds of the sale would be applied so that the preference shareholders first receive an amount up to the Conversion Price (i.e. £10 per share) before ordinary shareholders can participate in the distribution of exit proceeds. In the event that the sale was at a share price higher than the Conversion Price, your preference shares are converted into ordinary shares in order to benefit from the larger capital return.

- The preference shares will be held by a nominee company on your behalf (Abundance Nominee Limited) and administered by Abundance. This is a very common method of managing large numbers of investors to reduce the administrative costs to the Company of looking after a large number of individual shareholders. The nominee terms that all investors will enter into is available here - by voting in favour of this proposal you will also accept the nominee terms. You will continue to see your investment in CRL through your Abundance account and receive communications and any future cash distributions in the same way.

Debenture Interest to remain outstanding

We had intended for the Debenture Interest to also be converted to equity in CRL as part of this restructuring to capture any future upside in the value of the CRL shares through both your Debenture Capital and Interest, but due to tax reasons this is not possible. Tax legislation requires us to deduct an amount from interest we pay to investors (whether in the form of cash or another asset), equal to the basic rate of income tax, and pay that amount to HMRC, a process you may be familiar with from other interest income (e.g. from other investments on Abundance). This would require CRL to pay a considerable sum of money to HMRC which it does not have.

We have reviewed the position exhaustively with our legal and tax advisors and have reluctantly concluded that we are not in a position to convert the Debenture Interest into CRL equity. We had further hoped to be able to formally commit to you that we would make such a conversion on successful completion of our Series B raise (see section 5 below), however, we are advised that such a commitment now would trigger the same withholding tax liability.

Therefore in summary and if approved, the proposal will mean:

- all Debenture Interest remains outstanding and is novated to CRL under the terms of the novated Debenture Deed.
- no further interest will accrue from the point of novation.
- CRL is obliged to repay the Debenture Interest no later than 31 December 2024, with the ability to make early repayment(s) (which is our intention if we can).

We anticipate that the Debenture Interest falling due on 31 December 2024 could be settled from sources which may include licence and royalty fees earned from new projects; the profits from ongoing Research & Innovation activities undertaken on behalf of new commercial partners; new investment into CRL; or by offering you the opportunity to convert into CRL shares at the share price at that time.

2. Recap of key events and other options considered

As we have set out previously, the development of Caledon Green has been impacted by a number of issues that have resulted in this challenging refinancing situation, including:

- When we originally set out, we expected to part-fund Caledon Green with a non-refundable grant. With the loss of the grant in 2019 and the need to restructure, we had to take on the additional Scottish Enterprise debt and extend the Debentures. This has increased the total amount of debt to be repaid, with an interest bill that increases substantially each month.

- The delays caused by the need to restructure in 2019 and re-engage with contractors have been further compounded by delays due to Covid and Brexit which have caused contractor and supply chain issues. In total we are almost 3 years behind our original plan to have the plant operational by mid 2019 – we provide more detail about these delays in the section below.
- These delays have increased the overall cost of completing Caledon Green. These costs have been covered by equity funding from CRL but limit the equity funding available to support the refinancing.
- Our ability to raise new funding to refinance Caledon Green is reliant on the CRG business achieving certain key milestones and in particular being able to demonstrate several months of full operations which has not yet been achieved given the delays.

The total amount due on 30 June 2022 on the Debentures is approximately £10.8 million (Debenture Capital of circa £6.3 million and accrued Debenture Interest of circa £4.5 million). As well as the repayment of your Debentures, CRG is also due to repay the senior debt funding from its senior lender, Scottish Enterprise, which was due for repayment in May 2022 (and has been extended to 30 June 2022) and totals approximately £12.5 million (the "**SE Debt**").

As the maturity dates for the Debentures and the SE Debt have approached, and as we near the delayed completion of Caledon Green, we have explored many options for raising new funding (either equity or debt). However, given the amount we would need to raise, the need for operational data from the completed plant, and the significant macro-economic uncertainty at the current time around energy prices, labour costs, supply chain stability and feedstock availability, we have been unable to arrange a refinance of both the SE Debt and the Debentures.

Our attention has therefore been focused on the available restructuring options we could propose to our investors, and what this would mean for you. We have worked closely with Scottish Enterprise, as senior lender (it holds security over CRG and Caledon Green ahead of Abundance Debenture holders), and Abundance in considering a potential restructuring of the SE Debt and Debentures. Our focus has been on maximising potential returns to investors over a realisable timeframe.

Alternative option 1 – Changing the terms of the existing debt

We have explored the option of keeping your current Debentures in place with amended terms – some combination of extending the Debentures, reducing the interest rate, and/or reducing the total amount you would receive back.

We have considered the amount that could be repaid by CRG over the long-term from the profitable operation of Caledon Green to see what level of debt the plant could cover, including the need to repay the SE Debt. Based on this analysis, the total amount that could be supported would be less than the total amount due to CRG's creditors (approximately £23.3 million) – this means that even if CRG were to request a significant extension to the Debentures, with no further interest added, you would not be able to get back the full amount due to you.

The SE Debt ranks in priority to the Debentures and it is intended that this will be fully restructured into a long term senior debt obligation of CRG.

Following the completion of the SE Debt restructuring, our financial modelling for CRG indicates that circa £3.9 million of the Debentures (62% of the outstanding capital) could be repaid by CRG from the Caledon Green plant cashflows over an 18-year period, starting after 5 years in order to get the plant fully operational and generating long-term profit and taking into account: some shorter term challenges around increased costs to the supply chain most notably feedstock prices (which are closely linked to grain prices) and energy costs; and the higher combined debt (SE and Debentures) burden because of the various delays which puts further pressure on available cash, particularly in early years.

In our view, keeping the existing Debentures in place but under these substantially different terms would be a significantly worse outcome for the Debenture holders, with Debenture holders receiving back less than they originally invested, and over a much longer time period than anticipated. This option would also give Debenture holders no opportunity to benefit from any future success of the wider CR Group business.

Alternative option 2 – Partial conversion of your Debenture Capital into equity

We have also considered whether a partial conversion of Debenture Capital into CRL shares would be an option, with the remaining Debentures (up to an amount of £3.9 million) being restructured into a long-term investment, as per the terms mentioned above. For the same reasons as above, we do not think the terms that could be offered to Debenture holders are reasonable, and the 18-year repayment profile is at odds with the basis on which our Debenture holders made their initial investment assessment.

We therefore believe that a full conversion of the Debenture Capital (excluding accrued Debenture Interest) into CRL equity would be the best restructuring option as it offers the best opportunity for Debenture holders to receive a full return, in a timeframe which will hopefully be significantly shorter than the alternative. It would also give investors the opportunity to benefit from any future increase in the value of the CRL business that we anticipate and set out below in more detail.

3. The benefits of the restructuring proposal and holding shares in CRL

In our view, the restructuring proposal offers the best route to return full value to you for both your Debenture Capital and Debenture Interest plus the opportunity to benefit from future increase in the value of CRL shares:

- As CRL is the parent company of CRG, its ability to repay you is not solely dependent on the success of the single asset at Grangemouth owned by CRG. CRL is already starting to develop a number of larger plant projects as part of its growth strategy, which will deliver new and larger revenue streams than the single asset in CRG.
- If the proposal is accepted and you become a shareholder in CRL following conversion of the Debenture Capital, your return will not be limited to a fixed amount. With the planned growth of CRL through new project and technology licence opportunities, CRL expects to achieve a significant share price increase in the next few years with a likely exit through the sale of the business to a larger organisation within our industry (what is known as a 'trade sale') or an IPO (a listing on a public financial market). Please see section 5 below for more detail around CRL's future plans and the increase in value we hope to achieve for CRL shareholders. We of course cannot guarantee any increase in value to the CRL shares and with any equity investment the value of shares in CRL may decrease depending on the success or otherwise of CRL.
- We are proposing you receive non-participating preference shares to give you greater downside protection if the whole of CRL is sold at less than £10 a share – non-participating preference shareholders will receive their share of the proceeds up to £10 a share in advance of any distribution to ordinary shareholders.
- While we cannot provide certainty on when you would be able to realise the value from your CRL shares, we would expect this to be within a significantly shorter timeframe than remaining as a debt investor in CRG. Please see the section below for more detail on the potential exit options which could result in a return on your CRL shares.
- Moving the Debenture Interest obligation to CRL from CRG, also increases our options for paying it and shortens the time in which we expect we can do so with a final repayment deadline of 31 December 2024.

How much could you get back from your CRL shares?

At the point of conversion, you will receive a number of shares in CRL equal to the value of your Debenture Capital, based on the £10 share price at the last valuation event for CRL (when it raised equity capital in January 2022).

As an example, if you have £1,000 invested in the CRG Debentures as Debenture Capital you are due to receive £711.68 of Debenture Interest on 30 June, so a total of £1,711.68 due back. Based on the Conversion Price you will receive 100 non-participating preference shares in CRL with the £711.68 of interest remaining in Debenture form in CRL. Please note that when issuing shares the number to be issued will be rounded down except that we will not issue less than one share to any single investor.

Your future potential return from holding CRL shares will most likely be based on selling ('exiting') your CRL shares at a future date and based on the valuation of the CR Group business at that future date. With our Caledon Green plant approaching full operations, and with the progress we are making in developing new and larger opportunities, we expect the value of the CR Group business to increase beyond the current £10 share price. In the section below we have given an overview of CRL's future plans and why we believe the business of the CR Group can grow and increase in value.

It is important to understand that your investment will remain at risk and the value of your shares in CRL can go down as well as up depending on the performance of the CR Group business over time and what people are willing to pay for a share in CRL.

When and how could you receive a return from your shares?

The nature of shares, particularly in an early stage company, means that we cannot provide certainty on exactly when you will be able realise the value in CRL's shares, and the amount you might get back. However we have set out the likely routes and an estimate on timings. In all cases it would be at the point that your shares are sold that you would see a return, and this might happen in the following circumstances:

1. Our plan for CRL is to continue to grow the business for the next 5-6 years, investing in new plants and hopefully increasing the value of the CRL business, which we expect to lead to an exit for CRL shareholders during that period through two potential routes:

A). CRL is sold as a whole to a larger company that works in the industry and is interested in the technology we have developed and taking the CRL business forward. This is typically called a 'trade sale'. A sale of CRL and all of its shares would mean your shares in CRL would be sold by Abundance Nominee Limited on your behalf to the new owner, based on a price agreed at that time. Abundance would then distribute your share of the proceeds to your Abundance account less any transaction cost deductions.

B). CRL is listed on a stock exchange (what is called an Initial Public Offering or IPO). CRL shareholders would then be able to sell their shares to other investors in the wider financial market – the price you could get for your CRL shares would be dependent on what investors are willing to pay at the time.

2. You can look to sell your interest in CRL shares to another Abundance investor. The Abundance marketplace is not yet designed to facilitate the trading of CRL shares but Abundance will explore what options are available. The price you would receive for your interest in CRL shares will be dependent on what other Abundance investors are willing to pay.

As a shareholder you would also have a right to any dividends paid by CRL, however as an early stage company we expect to continue to invest any profits to grow our business (and the value of your shareholding) and we therefore do not currently expect to pay dividends in the upcoming years.

4. How we got to here and the current status of Caledon Green

Following the completion of the Abundance Debenture funding in April 2018, we were able to commence the construction of the Caledon Green plant in early July 2018, with an expected completion of construction and the initial mechanical/electrical testing 12 months hence in mid 2019. We only reached that point in January 2022 due to the range of factors which have delayed the project, and these can be summarised as follows:

- Loss of availability of the non-refundable grant funding and equity investment in CRL in December 2018, which led to a 15 month delay in the project, which was then due to re-start in April 2020.
- The initial period of the Covid pandemic then closed construction in Scotland for 3 months, such that the project re-started in July 2020. At that stage we expected the project construction to complete after a further 12 months, which also allowed for the difficulties of re-mobilising our supply chain of contractors and suppliers, taking us to mid 2021.
- The ongoing pandemic coupled with the impact of Brexit and some supply chain issues has added an additional 10 months of delay. Covid and Brexit have meant:
    - almost every supplier and contractor had reduced numbers available to work on our project;
    - we had to limit the numbers of people on site to comply with Covid regulations;
    - we experienced delays in delivery of equipment from overseas due to new customs rules.
- In addition to the Covid and Brexit related delays, we have had two main supply chain issues: our main fermentation vessels had manufacturing flaws which took over 2 months to resolve; and after a long-period of under-performance we had to terminate the contract with our main mechanical installation contractor in July 2021, and undertake the completion of this work with internal resource and sub-contractors. The latter decision was made to ensure the overall completion of the project could be achieved, as this outcome was under considerable threat if we continued with the original contractor.

In summary the delay in the project completion of c. 31 months has been caused by: loss of original funding – 15 months; initial period of the pandemic when construction sites were closed in Scotland – 3 months; contractor/supplier re-mobilisation after the project was on hold in 2019/2020 – 3 months; and Covid/Brexit and supply chain issues – 10 months.

Our projects team has now been continuing to systematically work through the commissioning with regular deliveries of feedstock being put through the plant to test all areas. The bacterial propagation stages of our process have been successfully running onsite for some months now and we have begun undertaking initial fermentation trials in our large (100m^3) fermentation vessels. The first large-scale fermentation in late April 2022 was another milestone moment for the team as fermentation of our feedstock (pot ale, draff and reject potatoes) at that scale has never before happened anywhere in the world.

Our focus is on repeating that fermentation process multiple times at full scale each week in order to reach the point where it becomes consistent and repeatable and we can start separating out our bio-solvent products. As might be expected for any first of a kind process, the initial fermentations are not yet working perfectly. However, the data from each fermentation is informing the optimisation of the process and moving us closer to manufacturing consistency.

The potential of the facility at Grangemouth to unlock future value for the CR Group as a whole has always been part of the wider strategic plan. We envisage that it will provide a location for testing new feedstocks and products as well as new and more efficient processes.

5. Future growth for Celtic Renewables Limited and its exit plans

Under the proposed restructure, you will through your CRL shareholding have an interest in the wider commercial interests of the CR Group and as such we are delighted to share with you that CRL has recently agreed to jointly develop a new facility with a third party.

Our earlier communication of 7 April 2022 made reference to this but we can now confirm that CRL has entered into a memorandum of understanding with Rothes CoRDe Limited (the owner of the biomass renewable energy plant in Speyside, fuelled by local malt whisky distillery co-products) to jointly invest development time and resources in a proposition for our next plant (the "**Rothes Plant**"). We are very pleased with the progress being made with Rothes CoRDe Limited: we expect a full legal joint venture agreement to be exchanged and signed with them later this year and the agreed target is to commence construction of the Rothes Plant early next year, with the expectation that it will be operational in late 2024 (within 2 years from the start of construction).

The Rothes Plant will have a capacity c.8-10 times greater than that at Caledon Green and will demonstrate the capability of CRL's technology to operate at a larger industrial scale alongside an existing biomass combined heat and power facility at Rothes. The co-location with the biomass facility provides many operational benefits in terms of energy supply and outlet for CRL by-products, however we believe that there is also a strategic opportunity to demonstrate how our process can complement existing circular economy industries. CRL will be leading the development of the project with our partners at CoRDe providing funding and site-specific input.

The Rothes Plant project meets CRL's strategic objective of expanding the CRL technology that has been tested at Caledon Green into larger scale projects with a view to developing a portfolio of facilities that will underpin CRL's proposition and attract investment for global deployment. We are particularly pleased that our partner for this plant is backed and supplied by major drinks producers and we believe that the successful execution of this project will quickly lead to future opportunities.

In addition to this exciting new project, CRL continues to develop a pipeline of further opportunities, building relationships with food and drink manufacturers who can see the commercial and environmental benefit of partnering with us to apply our process to their by-products. We are progressing discussions with two further plant opportunities which will closely follow the Rothes Plant opportunity, and therefore we expect to commence the development of 2-3 further plants in the next 2 years. We also expect to establish international partnerships and/or licencing deals in a similar timeframe to exploit the immediate demand for CRL's process technology, now that Caledon Green is beginning to operate.

From a product offtake perspective, you will recall from our previous communications that CRG's first customer, Caldic, is heavily engaged in the preparations for the start of production at Caledon Green. We are looking forward to having sample products to share with them and other potential customers shortly and it is CRG's intention to have customer agreements in place for the remainder of the output from Caledon Green plus for CRL's new facility at Rothes in the coming months. Already we can see the demand for the bio-based solvents well outstrips what we can produce at Caledon Green and there is an immediate necessity for CRL to develop other larger plants to satisfy this demand.

As a scaling business, CRL's growth ambitions to deliver value for existing and new investors has an ongoing requirement for further funding. The CR Group's next large fundraising exercise will be to raise new equity in CRL towards the end of this year to co-invest alongside our partners CoRDe in the new Rothes Plant. This funding will enable CRL to construct and commission that second new plant, another important milestone for the group and an important source of ongoing revenue to support the wider business. At the same time, we plan to raise additional growth capital for the CR

Group so that we can build out our team to create the capacity to fulfil our ambitions of being able to develop more than one facility at a time and to ultimately move on to a global licensing model.

CR Group is in the process of engaging corporate finance advisors who will help CRL to undertake a Series B equity raise in CRL with a target of raising £50-60m by the end of 2022. This fund raise is intended to facilitate the growth in the value of the business, and therefore the value of your shareholding, via the construction and operation of CRL's proposed new Rothes Plant and the development of customer, supplier and new project opportunities. It is not currently anticipated that there will be an opportunity for existing shareholders to exit (sell your shares) during this Series B round. We expect the share price for this Series B round to be well above the share price being offered to the Abundance investors in this refinance proposal, although no guarantees can be given.

Longer term, we believe that a successful Series B raise and completion of the Rothes Plant will put CRL in a strong position to develop a significant pipeline of new opportunities in the UK, Ireland and further afield which in turn can attract large scale institutional investors or manufacturers and facilitate an exit for all of CRL's investors. We believe that this could be achievable within 5 years of the completion of the Series B raise - businesses such as CRL which provide a pathway to net zero for large global businesses can attract a significant premium on exit. It is this potential exit premium which we now offer to our Abundance investors through owning shares in CRL.

6. Voting process and next steps

The amendment to your investment that we are requesting can only be exercised by a Special Resolution of investors. This means that you, the Debenture investors, have the right to vote on whether or not you wish to accept this proposal.

For a Special Resolution to pass, Debenture investors holding at least 75% of the outstanding capital of those debentures must vote in favour. You will find a link to the Special Resolution (the legal document you are voting on) in the email included with this proposal, as well as within the voting process.

To place your vote, please follow the link provided in the email with this proposal from Abundance. Please place your vote by 20 July 2022.

7. Your questions answered

What will happen if the proposal is not accepted?

If this proposal is not accepted, the terms of your Debentures will not change and as of 30 June 2022, CRG will be in default of the terms of the Debenture Deed since it is unable to repay you.

Due to the Debentures ranking behind Scottish Enterprise, enforcement action cannot be taken without the consent of Scottish Enterprise or until it has exercised its enforcement rights first. Further, as the Debenture Deed is issued by CRG, there is no direct link between a default of the terms of the Debenture Deed and the activities of the rest of the CR group. However, having Debentures in default could create some significant difficulties for CRG and the CR Group overall since being in default will hamper our ability to progress our future plans and including our ability to repay you.

What will be the value of my CRL shares at the point of conversion?

Our proposal is to convert the outstanding Debenture Capital value of your Debentures, into shares in CRL at a value of £10 per share – the **Conversion Price**. This was the price of CRL's shares at the point that it last raised capital in January 2022.

Your shareholding will therefore be notionally worth the same amount as the Debenture Capital that was owed to you by CRG – although we do appreciate that receiving shares in CRL is not the same as receiving the equivalent cash amount from CRG.

Why are shares in CRL being offered rather than CRG?

CRL is the company that owns all of the share capital of CRG.

CRG owns the Caledon Green plant and is purely focused on this particular project, whereas CRL is CRG's parent company which is looking to expand its business and develop new plants (eg the Rothes Plant and others). By offering you shares in CRL rather than CRG, we hope that you can benefit from the growth of the wider CRL business (and therefore hopefully an increase in the value of your CRL shares) as we develop these new projects, and not simply from the value of our Caledon Green plant within CRG.

Why can't the interest be converted into shares too?

Our original intention was to convert the Debenture Interest owed to you into shares in CRL on the same basis as converting the Debenture Capital, however this has unfortunately not been possible due to tax reasons.

Tax legislation requires us to deduct an amount from interest we pay to investors, equal to the basic rate of income tax and pay that amount to HMRC. This requirement applies whether we pay the interest in the form of cash or by converting the interest into shares. This would require CRL to pay a considerable sum of money to HMRC which it does not have.

We have reviewed the position exhaustively with our legal and tax advisors and have reluctantly concluded that we are not in a position to convert the Debenture Interest into CRL equity. We had further hoped to be able to formally commit to you that we would make such a conversion on successful completion of our Series B raise (see section 5 below), however, we are advised that such a commitment now would trigger the same withholding tax liability.

How will the outstanding interest be paid?

The Debenture Interest amount due to you will become an obligation of CRL, with a repayment date of 31 December 2024 but with the option to make early repayment(s).

Our intention is to repay the amount as and when we can before the 31 December 2024 deadline, from sources which may include licence and royalty fees earned from new projects; the profits from ongoing Research & Innovation activities undertaken on behalf of new commercial partners; new investment into CRL; or by offering you the opportunity to convert into CRL shares at the share price at that time.

Why will the unpaid interest not accrue any further interest?

The repayment of the outstanding Debenture Interest will be an obligation of CRL with a final repayment date of 31 December 2024. There will be no further interest accrued on this unpaid amount over this period.

Given the significant amount of interest already owed to Debenture investors, continuing to accrue additional interest over the extended period would only increase the debt burden of CR Group and would make it more difficult to repay, potentially leading to a similar position that CR Group is in further down the line.

While you would not earn anything further on the unpaid Debenture Interest amount, by converting your Debenture Capital into shares in CRL we expect you to be able to benefit from the wider growth we have planned for the business which should see an increase in the value of your CRL shareholding (although we cannot offer guarantees and the value of your shares can go down as well as up).

Can the money raised in the upcoming Series B equity investment be used to repay the outstanding interest?

CR Group is in the process of engaging corporate finance advisors who will help CRL to undertake a Series B equity raise in CRL with a target of raising £50-60 million by the end of 2022. The principal purpose of this funding round is to raise money to put towards growing the business by investing in the construction and operation of CRL's proposed new Rothes Plant and the development of customer, supplier and new project opportunities. This will in turn hopefully grow the value of the business and therefore the value of your shareholding.

We may look to repay some or all of the outstanding Debenture Interest due to Debenture holders from the Series B funds raised, however it may not be possible. New Series B investors will be principally investing on the basis the money raised is put towards new developments as that is where the potential for growing the value of the business is.

How is the Scottish Enterprise debt being restructured?

We were due to also repay the secured SE Debt at the end of May 2022, and are unable to do so. The SE Debt therefore also needs to be restructured and Scottish Enterprise have as an interim measure allowed for the repayment date of the SE Debt to be amended to 30 June 2022 but with an option for this date to be extended further to 28 September 2022 if certain conditions are met.

The main (rather than interim) terms of the restructuring of the SE Debt are still subject to approval but will represent a significant variation in terms for Scottish Enterprise and we are grateful for their collaborative approach and ongoing support to our business.

How are existing shareholders impacted?

This proposal represents a significant dilution for existing CRL shareholders. We have held extensive discussions with CRL's majority shareholders as part of the restructuring proposal and they recognise the support that the Abundance investors have provided at key stages in the development of Caledon Green.

Will I be able to hold the shares in my Abundance account?

Abundance will be the nominee for your CRL shares which means it will, via a nominee company (Abundance Nominee Limited), hold the CRL shares in trust for you, but you will be the beneficial owner of the CRL shares. This simplifies the administration of the shares for both CRL and shareholders and similar arrangements are already in place to manage these nominee and beneficial owner arrangements with a group of shareholders we have through the Crowdcube investing platform. Your shareholding will be shown within your Abundance account.

If I hold the debentures in an IF ISA currently, will I be able to hold the shares in my IF ISA?

Unfortunately, if you currently hold your Debentures in an IF ISA with Abundance, your shares in CRL will need to be held in a Standard portfolio as unlisted shares are not eligible to be held in an innovative finance ISA. The unpaid Debenture Interest amount can remain in your IF ISA portfolio.

If I hold the debentures in SIPP currently, will I be able to hold the shares in my SIPP?

If you currently hold your Debentures in a SIPP with Abundance, your shares in CRL can be held in your existing SIPP, subject to approval from your SIPP provider. The unpaid Debenture Interest amount can remain in your SIPP portfolio.

Will I be able to sell my shares on the Abundance marketplace?

The beneficial interest in your CRL shares will be transferable and can be transferred to another investor on Abundance, however initially it will not be possible to sell your shares through the Abundance marketplace as the process required for the purchase of shares is different. However, Abundance is exploring how to make this possible in the future and expects to offer a new feature to allow you to sell the beneficial interest in your shares to those existing investors who are interested in buying.

Will I be taxed on the shares I receive and if I sell my shares?

We cannot give tax advice to individual investors since each person's circumstances may vary. We encourage you to seek advice if you are unsure of the position.

Yours faithfully,

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Director, for and on behalf of

Celtic Renewables Grangemouth plc

APPENDIX 1

RISK FACTORS

The delivery of this proposal shall not, under any circumstances, create any implication that there has been no change in the affairs of CRG or CRL since the date of this proposal or that the information in this document is correct as of any time subsequent to the date of this proposal. Before deciding whether to convert Debenture Capital with CRG into shares in CRL, Debenture investors should carefully consider the risks described below together with all other information contained in this proposal document.

The risk factors described below are not presented in any order of priority and may not be exhaustive. Additional risks and uncertainties relating to CRL, which is part of the CR Group, that are not currently known to the directors, or that it currently deems immaterial, may also become important factors and have an adverse effect on the CR Group's business. If any of the risks stated herein or those other risks occur, CR Group's business, financial condition, results of operations, and future prospects could be materially and adversely affected and the value of shares in CRL may decline and investors could lose all or part of their investment. Investors should consider carefully the risks and uncertainties described below, together with all of the other information in this document, including the financial statements and the related notes.

Company and business risks

A. **Early stage business with limited/no operating history**
   CR Group (comprising CRG ad CRL) is an early stage business. While CR Group's directors have prepared their forecasts and business plans on the basis of their experience and reasonable expectations of how the Caledon Green plant will operate, there is limited operating data to support or validate their views.

B. **Operating risks – ongoing operations risks**
   Like all operating businesses, the CR Group is exposed to risks associated with threats to ongoing operations such as a major Health & Safety incident, IT security breach or fraud/financial error. The management team regularly review the CR Group's defences against such risks and engage the support of external consultants, where appropriate, to support in the monitoring and management of such risks. If a significant instance of any of these risks arose, this could have a material adverse effect on the CR Group.

C. **Operating risks - growth**
   The CR Group may experience significant growth and development in a relatively short period of time and may face risks frequently encountered by developing companies such as under-capitalisation, under-capacity, cash shortages and limited resources. In particular, its future growth and prospects will depend on its ability to manage growth and to continue to maintain, expand and improve operational, financial and management information systems on a timely basis, whilst at the same time maintaining effective cost controls.

D. **Dependence on its suppliers**
   The CR Group is dependent on third party suppliers for feedstock for its process. In the event of supply chain difficulties, the CR Group may need to select new feedstock providers or

develop its technology for new feedstocks, which may cause potential delays and impact the financial condition of the CR Group.

E. Litigation

The CR Group is exposed to the risk of litigation from its customers, distributors, suppliers and employees amongst others. Any legal proceedings, whether or not determined in the CR Group's favour, could be costly and may divert the efforts of management and personnel from normal business operations. Exposure to litigation may affect the CR Group's reputation even where the monetary consequences may not be significant.

F. Industry risks

The CR Group's core business operates in a competitive international industry. The CR Group will ultimately compete with established and generally larger competitors. There is no assurance that the CR Group will be able to compete successfully with its competitors in acquiring and maintaining new clients.

G. Intellectual property

The core technology and process being commercialised by the CR Group is covered by granted international patents in favour of CRL, and the commercial success of the CR Group depends in part on its ability to protect and exploit its intellectual property and to preserve the confidentiality of its intellectual property. The CR Group may not be able to protect and preserve its intellectual property rights or to exclude competitors with similar products and/or processes. No assurance can be given that others will not attempt to gain access to the CR Group's proprietary technology and/or use or disclose such technology. A substantial cost may be incurred if the CR Group is required to defend its intellectual property rights (even if any claim brought is without merit) against third parties.

Financial risks

H. Revenue and profitability

The CR Group is currently not profitable and cannot guarantee that it will be able to achieve or sustain revenue growth and achieve or sustain profitability in the future. The CR Group's operating results may fluctuate as a result of a number of factors, many of which are beyond its control. These factors include, amongst other things, commencement of production at the Caledon Green plant, the ability to secure any revenue generating contracts and unanticipated delays. If the CR Group does not realise sufficient revenue levels to sustain profitability, it may require additional financing, which may not be available.

I. Additional capital and dilution

The CR Group directors anticipate that the CR Group could require capital in order to further develop and commercialise its process and technologies. Further, the amount of capital required for the continuing development and commercialisation of the CR Group's products and technologies is difficult to predict accurately. If additional funds are raised through the issue of new equity or equity-linked securities of CRL other than on a pro rata basis to existing CRL shareholders, the percentage ownership of such existing CRL shareholders may be diluted.

J. Forward-looking statements

This document contains certain forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts contained in this document, including statements regarding the CR Group's future financial position, business strategy and plans, business model and approach and objectives of management for future operations, are forward-looking statements. Generally, the forward-looking statements in this document use words like "anticipate", "believe", "could", "estimate", "expect", "future", "intend", "may", "opportunity", "plan", "potential", "project", "seek", "will" and similar terms. These forward-looking statements include, but are not limited to, statements about the:

- implementation of the CR Group's business model and strategic plans for the business;
- estimates of the CR Group's expenses, future revenues, capital requirements and need for additional financing;
- CR Group's ability to establish and maintain corporate collaborations with third parties;
- financial performance of the CR Group; and
- CR Group's industry and competitors.

The CR Group's actual results could differ from the results discussed in the forward-looking statements in this document. The forward-looking statements in this document are based on the CRL directors' beliefs and assumptions and information only as of the date of this document, and the forward-looking events discussed in this document might not occur. Therefore, Abundance Investors should not place any reliance on forward-looking statements. Except as required by law, the directors of CR Group undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future earnings or otherwise. Moreover, the CR Group operates in a competitive environment. New risks emerge from time to time. It is not possible for the CR Group directors to predict all risks, nor can they assess the impact of all factors on the CR Group's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements it may make. Past performance and historical information is not an indication of future performance.

K. Macro-economic risks

Macro-economic uncertainty could affect the CR Group's business. In particular, changes to energy prices, labour costs, supply chain instability and the price and availability of feedstock could impact the ability to the CR Group to achieve the financial performance it is targeting.

L. Other financial risks

Inflation could affect the CR Group's business. Deflation could reduce the value of an investment in CRL and any return that may be achieved.

Taxation and other risks

M. Taxation

It should be noted that the information contained in this document relating to taxation is for guidance only and may be subject to legislative change. Abundance Investors are advised to seek specific tax advice regarding the conversion of Debenture Capital and resultant purchase of the CRL shares. Changes in government or government policy could affect the tax treatment of this investment. This could have a material effect on the net value of the investment.

N. Articles of Association

The articles of association of CRL contain certain restriction on the transfer of shares and are subject to customary drag and tag-along rights. All shares to be issued to the Abundance Investors must be held by the nominee company (Abundance Nominee Limited) to be administered by Abundance.

O. Valuation of the CRL shares

The price at which the Debenture Capital is being converted into CRL non-participating preference shares is £10.00 per share. There can be no guarantee that the CR Group will develop as anticipated or that it will achieve milestones to justify the valuation of the Conversion Price, or that such CRL shares will be able to achieve a higher valuation in the future or the required rate of return or, if achieved, that such valuation will in fact be maintained.

P. Payment of dividends

There can be no assurance as to the payment of dividends to shareholders in CRL or, if CRL does pay dividends, the amount of such dividends. CRL could decide to retain any earnings to expand the growth and development of its business and, therefore, may decide not to pay a dividend in the foreseeable future.

Q. Private company

This proposal is directed only at the named recipients of this document, is not intended to comprise an "offer to the public" within the meaning of sections 755 and 756 of the Companies Act 2006 and as such the CR directors have determined that CRL should not be re-registered as a public company at the current time. Accordingly, Abundance Investors should be aware that CRL is currently a private company and is not subject to the additional protections afforded by the Companies Act 2006 to public companies or by The City Code on Takeovers and Mergers.

AS STATED ABOVE, THIS IS NOT AN EXHAUSTIVE LIST OF RISKS. WHEN CONSIDERING THE TERMS OF THIS PROPOSAL ABUNDANCE INVESTORS SHOULD SEEK ADVICE FROM AN INDIVIDUAL QUALIFIED TO GIVE SUCH ADVICE.