News release

Velocys plc

("Velocys" or "the Company")

28th April 2015

Final results for the year ended 31 December 2014

Velocys plc (VLS.L), the company at the forefront of smaller scale gas-to-liquids (GTL), is pleased to announce its final audited results for the year ended 31 December 2014.

Highlights

- Formation of GTL joint venture with Waste Management, NRG Energy and Ventech.
- First commercial plant under construction in Oklahoma, USA on schedule for commissioning in H1 2016.
- Acquisition of Pinto Energy and its 4,800 bpd Ashtabula GTL plant development targeting FID at end 2015.
- Sale of commercial reactor to CIS customer with delivery in progress.
- Cemented manufacturing partnership with Shiloh Industries.
- UK High Court ruled in favour of Velocys IP in litigation against CompactGTL.
- Revenue* of £1.7 million (FY 2013: £4.8 million) – first year with 100% commercial revenue.
- £52 million raised before expenses in oversubscribed equity placing at £2.25 per share.
- Cash** at period end of £59.8 million (FY 2013: £26.4 million).

Roy Lipski, CEO of Velocys, said:

"2014 was one of the most successful years in the history of Velocys. With over $85 million of cash on the balance sheet, the unwavering support of major partners and our first commercial plant under construction, Velocys is poised to take advantage of the significant opportunities which typically surface during times of market volatility such as these, and notwithstanding some potential near term headwinds in the oil and gas industry, to establish an even stronger business and market position. Interest in smaller scale GTL remains high and I look forward to achieving the significant milestones ahead of us."

* Before exceptional items.
** Defined as cash, cash equivalents and short term investments.

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Notes to editors

About Velocys

Velocys is the company at the forefront of smaller scale gas-to-liquids (GTL) that turns natural gas or biomass into premium liquid products such as diesel and jet fuel. Smaller scale GTL adds value to shale gas and bio-waste, and makes stranded or flared gas economic – an untapped market of up to 25 million barrels per day.

Velocys technology, protected by over 900 patents, is specifically designed for smaller scales, combining super-active catalysts with intensified reactor systems. The Company's standardised modular plants are easier to ship and faster to install, at lower risk, even in the most remote or challenging locations. Together with world-class partners, Velocys works flexibly to unlock gas resources of 15,000 to 150,000 mmbtu per day, allowing more companies to take advantage of more opportunities.

Velocys plc is listed on the AIM market of the London Stock Exchange (LSE: VLS). The Company is well capitalised and has a multi-disciplinary staff of over 100 operating from its commercial centre in Houston, Texas, USA and technical facilities near Oxford, UK and Columbus, Ohio, USA. Its first commercial plant, funded by Waste Management (NYSE: WM), NRG Energy (NYSE: NRG) and Ventech Engineers, is on track to enter commercial production in H1 2016.

www.velocys.com

Think Smaller™. Velocys is changing the way fuels are made.

Chairman's statement
Pierre Jungels, CBE

At a time when lower oil prices have created uncertainty in the fuels industry, smaller scale GTL continues to have a valuable role to play, driven by local needs to bring stranded or wasted gas to market and by demand for its clean premium products. Current market conditions highlight the benefit of a technology that is designed for smaller scales and can therefore access the specific niches of value, typically sites with low- or negative-cost feed stocks or high-value product opportunities where the GTL arbitrage remains strong.

Velocys is well positioned to move forward as a leader in the market for smaller scale GTL. Its position has been firmly established with the decision to proceed with construction of the GTL JV's plant in Oklahoma, USA.

This facility will be our first commercial reference plant and I am delighted to report that it is advancing well and remains on target for commissioning in H1 2016. In addition to progressing the build on this plant, the GTL JV, now renamed ENVIA Energy, has identified and is evaluating candidate sites for possible next plants.

During 2014, Velocys took another step forward to accelerate the market for smaller scale GTL by acquiring a leading project development company, Pinto Energy, now called Velocys Project Solutions (VPS). This new capability enables Velocys to develop the market faster, and to improve both the breadth and quality of its offering to customers. The team is currently developing the Ashtabula GTL plant and has a further pipeline of projects.

Another major success in 2014 was the outcome of our IP litigation case against CompactGTL. Defending IP is a long and expensive process and not to be undertaken lightly. The overwhelming success of our case, which concluded with the judge ruling in our favour on all items examined, strongly vindicates our position of having a unique technology robustly protected by patents. At a time when others may be looking to enter this attractive new market, our strong IP position is clearly an important competitive advantage.

Key priorities for Velocys going forward are the successful delivery of its first GTL plant, the development of future projects and the building up of resources to support them. We have made substantial progress throughout the year on these objectives, including work with our supply chain partners to ensure all the relevant capabilities are in place. As announced in March last year, Velocys cemented an important collaboration agreement with Shiloh Industries (Shiloh), our reactor manufacturing partner. At that time, Shiloh made a $2 million investment in shares of Velocys.

As further support for these efforts, we have continued to grow the Velocys team. At the end of 2014, the Company had some 115 employees comprising a world class group of technical, engineering and commercial talent. Velocys announced in 2013 the establishment of its new Houston base; we now have the full complement of staff there to support commercial, engineering and project development activities.

In September 2014, Velocys completed a significant equity placing, raising £52 million before expenses. It was oversubscribed and attracted strong support from shareholders. As a result, the Company moves into 2015 well capitalised, with the resources to succeed in its next stage of commercialisation.

Total revenues for the period before exceptional items were £1.7 million (2013: £4.8 million) and were all derived from commercial activities. Cash* at period end stood at £59.8 million (2013: £26.4 million), while cash outflow** was £18.1 million (2013: £12.5 million).

* Defined as cash, cash equivalents and short term investments.
** Defined as cash movement excluding monies from fund raising and issuance of shares.

Outlook

Velocys enters 2015 with a very strong balance sheet and in the exciting position of having its first commercial reference plant under construction, which promises to be a significant catalyst for business when complete. Although volatility in the markets may cause a degree of hesitancy in the short term, companies with longer term outlook are already planning for higher oil prices or restored margins. The market for smaller scale GTL remains compelling and there are exciting opportunities ahead for Velocys. I look forward with confidence to seeing our first commercial plant in operation.

Chief executive's report
Roy Lipski

Introduction

In 2014, Velocys reached a momentous milestone event: the first commercial plant using our technology was committed and is now under construction. This achievement is the culmination of many years of effort and preparation, and the Company is focussed on ensuring this plant is successfully brought into operation.

Market conditions

After a sustained period of high oil prices, the second half of 2014 saw a dramatic and unexpected fall. As a result, large scale GTL projects whose rationale is simply to take advantage of the mass-market price arbitrage between natural gas and crude oil will be difficult to progress at this time, as they cannot be placed in the most advantaged locations and since their capital costs are too high for an industry currently struggling with cash flow.

Whilst some investment decisions are under greater scrutiny, good opportunities remain for smaller scale GTL; many local situations are likely to retain their attractiveness, even with lower gas-oil differentials at the major hubs. These projects either utilise economically-priced gas or other low- or negative-cost feed stocks, or serve a market where a premium can be realised, for example by producing high-value speciality products such as base oils or waxes, or by serving isolated areas where liquid fuel import costs are high.

In this tougher market, quality counts; projects need to use the most competitive technology in order to achieve the best economic returns. Those companies, like Velocys, that possess vital elements – a strong balance sheet, supportive partners, and plants that are already committed – are well positioned to benefit from this challenging period whilst others may struggle.

Commercialisation

<u>Sales and prospects</u>
Against this backdrop, we saw a number of the prospects in the Velocys sales pipeline moving forward in 2014, most notably the Oklahoma plant funded by ENVIA Energy, a joint venture partnership between Waste Management, NRG Energy, Ventech Engineers International and Velocys. Not only is this project the first commercial reference plant for smaller scale GTL using Velocys technology, it is the first to be funded by the joint venture that was formed to develop a series of such plants utilising biogas from Waste Management landfill sites supplemented by pipeline gas.

The Oklahoma GTL plant is now under construction with the reactors in build at Shiloh, the modules being fabricated at Ventech's workshop and the groundwork having commenced at the site. This work is on schedule, with commissioning anticipated during the first half of 2016.

As well as being a technology supplier to the Oklahoma project, Velocys is also a minority investor in the plant through the JV. This closer involvement in the project is paying dividends through improved visibility of the key factors required to make such projects successful.

Also in 2014, Velocys received an order for a reactor for a demonstration facility at a customer site in the Commonwealth of Independent States (CIS). This reactor is also in fabrication for delivery during 2015.

Another project that has made significant headway in 2014 is the Red Rock Biofuels project. In September 2014, it was announced that this customer was awarded a $70 million grant from the

US Department of Defense to construct a biomass-to-liquids (BTL) plant incorporating Velocys technology. Red Rock Biofuels, a subsidiary of IR1 Group LLC, has experience constructing and operating commercial-scale biofuels facilities. The new BTL plant in Oregon will convert some 170,000 tons per year of forestry and sawmill waste into approximately 1,100 barrels per day of ultra clean transportation fuels. As well as securing the grant, the project owners also announced in 2014 that they had secured an offtake agreement for jet fuel from Southwest Airlines.

Project development
During 2014, in order to accelerate market adoption of its technology, Velocys took steps towards developing "shovel ready" projects which can be independently financed. This was the driver behind the acquisition of Pinto Energy (now renamed Velocys Project Solutions) in June 2014, which gave Velocys an initial team of people skilled in project development and a pipeline of project opportunities. Since then, the new team has been expanded and includes 9 full time staff, with an initial focus on bringing the Ashtabula project, which is now planned to be a 4,800 bpd plant producing speciality waxes and chemicals, to final investment decision (FID) towards the end of 2015.

Pilot plant and demonstration activities
The Velocys pilot plant located in Columbus, Ohio continues to support our sales effort. In addition to providing product samples for potential customers, the plant has been used to demonstrate specific operating conditions for various customers, including a successful run at the conditions for the Oklahoma plant. In preparation for the operation of the Oklahoma plant we established an operational support team and developed protocols, manuals and training capabilities for commercial operation, as well as the relevant techniques and equipment for catalyst handling on a commercial scale.

At the end of 2013, we announced that the Velocys plant in Fortaleza, Brazil, at a site owned by the Brazilian national oil company, Petrobras, had completed its demonstration. This was the culmination of the joint development agreement ("JDA") between Velocys and its partners for offshore applications of GTL, MODEC and Toyo Engineering, and as a result the JDA was concluded in 2014. Whilst off-shore GTL remains a promising prospect in the long term, we believe that this market will only develop after on-shore plants have been established.

Manufacturing and supply chain
At the start of 2014, Velocys stepped up its partnership with Shiloh, the manufacturer of the Company's reactor cores. Shiloh is one of North America's leading suppliers of engineered metal products and light weighting solutions to the automotive industry. Together we created a supply chain infrastructure that is capable of supporting annual sales of up to 10,000 bpd based on state-of-the-art manufacturing technology and quality systems from the automotive industry, and have plans that allow us to ramp up to 40,000 bpd in line with demand. This partnership involved investment in a multimillion dollar facility at Shiloh's Ohio site where construction of the first reactors is now in progress.

As part of the partnership arrangement, Shiloh purchased 601,326 shares of Velocys at 200p per share, representing a 32% premium to market price at the time.

During 2014, Velocys also launched production of its commercial catalyst which is being manufactured by one of the Company's catalyst manufacturing partners.

Intellectual property

Velocys' IP position was considerably strengthened during 2014 by the very favourable judgement in the litigation case against CompactGTL. Not only did the judge rule that CompactGTL was infringing both the Velocys patents in question, but also the Velocys patents were upheld. We have been awarded costs for which CompactGTL has made an interim payment of £850,000 pending final settlement, and the court ordered an immediate injunction restraining them from carrying out infringing activities. The case is continuing, with determination of damages to Velocys expected to follow after additional disclosures from CompactGTL have been received.

The key significance of this outcome is that it demonstrates the robustness of our IP and our ability to defend it rigorously where we see infringement. Equivalents of the two patents in this case have also been approved in numerous other jurisdictions around the world, including places where smaller scale GTL might be deployed, such as the United States and Canada, and countries where FT reactors and other associated equipment might be manufactured, such as Japan and South Korea.

Velocys has a very substantial patent portfolio comprising more than 900 patents, covering a broad range of countries, which protects key inventions relevant to smaller scale GTL. The Company also holds a significant inventory of trade secrets which it has gained through years of development and practice.

Equity funding

On 29 September 2014, Velocys announced an equity placing of £52 million comprising 23.1 million shares at £2.25 per share, underscoring the commitment and confidence of investors in the Velocys business. These funds will be used to strengthen the Company's balance sheet in support of sales, help the development of selected projects to funding readiness, and support the general working capital needs of the business.

Resources

The Velocys team has expanded to meet the increasing demands and opportunities ahead, particularly in staff with skills in engineering, manufacturing, operations, plant commissioning and project development. Velocys employees are located across three main sites in Oxford, UK and Ohio and Houston, USA. We have a team that is world-class in the very areas needed to successfully deliver our leading technology – drawn from some of the leading players in our industry – as well as an established base at the heart of the oil and gas industry, Houston. From a financial perspective, the fund raise in September 2014 leaves Velocys well capitalised to deliver on its goals and ambitions.

Financial review

2014 financial results continue to reflect the transition period to commercialisation. Indeed, this was the first year where all the Company's revenues were from commercial sources, as opposed to development and milestone payments. Following restructuring of our supply contract for reactors, we concluded that recognition of revenue on reactor sales would be on their final delivery only. Therefore, our revenues in 2014 reflect only certain engineering income and part of our licence fees on the Oklahoma plant. These revenues before exceptional items were £1.7 million (2013: £4.8 million).

Unfunded research and development costs and other administrative expenses stood at £21.0 million (2013: £16.8 million) as commercial activities continue to ramp up, including operation of the Company's pilot plant, preparation for commercial deployment and the development of projects such as Ashtabula. Adjusted losses* for the period were £18.7 million (2013: £14.1 million). Cash** at period end stood at £59.8 million (2013: £26.4 million), while cash outflow*** was £18.1 million (2013: £12.5 million).

* Adjusted losses exclude the impact of foreign exchange losses, (2014: £1.1 million gain; 2013: £0.3 million loss) noncash items (depreciation, amortisation and share-based payments: £4.3 million, 2013: £3.7 million) and exceptional non-cash items (2014: £1.3m; 2013: nil).

** Defined as cash, cash equivalents and short term investments.

*** Defined as cash movement excluding monies from fund raising and issuing shares.

Consolidated income statement

for the year ended 31 December 2014

	Note	**2014** £'000	**2014** £'000	**2014** £'000	2013 £'000
		Before exceptional items	Exceptional items (note 2)	Total	
Revenue	3	1,736	(1,742)	(6)	4,753
Cost of sales		(536)	1,742	1,206	(3,300)
Gross profit		1,200	-	1,200	1,453
Unfunded research and development costs		(11,163)	-	(11,163)	(10,477)
Share-based payments		(3,407)	-	(3,407)	(2,782)
Other administrative expenses		(9,853)	(1,328)	(11,181)	(6,339)
Total administrative expenses		(24,423)	(1,328)	(25,751)	(19,598)
Operating loss		(23,223)	(1,328)	(24,551)	(18,145)
Finance income		1,225	-	1,225	419
Finance costs		(29)	-	(29)	(364)
Other income		56	-	56	58
Finance income, net		1,252	-	1,252	113
Loss before income tax		(21,971)	(1,328)	(23,299)	(18,032)
Income tax credit		929	-	929	1,111
Loss for the financial year attributable to the owners of Velocys plc		(21,042)	(1,328)	(22,370)	(16,921)
Loss per share attributable to the owners of Velocys plc					
Basic and diluted loss per share (pence)	4	(17.24)		(18.33)	(14.60)

Consolidated statement of comprehensive income

for the year ended 31 December 2014

	2014 £'000	**2014** £'000	**2014** £'000	2013 £'000
	Before exceptional items	Exceptional items (note 2)	Total	
Loss for the year	(21,042)	(1,328)	(22,370)	(16,921)
Other comprehensive expense				
Items that will be reclassified subsequently to profit or loss when specific conditions are met				
Foreign currency translation differences	1,108	-	1,108	(269)
Total comprehensive expense for the year	(19,934)	(1,328)	(21,262)	(17,190)

Consolidated statement of financial position

as at 31 December 2014

	Note	**2014** £'000	2013 £'000
Non-current assets			
Intangible assets		28,347	24,971
Property, plant and equipment		4,065	2,084
Investments	6	1,711	-
		34,123	27,055
Current assets			
Trade and other receivables		653	1,112
Current income tax asset		1,778	1,750
Inventory		291	263
Derivative financial instruments	8	435	-
Short term investments – funds held on deposit	5	28,083	11,875
Cash and cash equivalents	5	31,693	14,475
		62,933	29,475
Total assets		97,056	56,530
Current liabilities			
Trade and other payables		(10,902)	(6,021)
Derivative financial instruments	8	-	(263)
Borrowings		(267)	(104)
		(11,169)	(6,388)
Non-current liabilities			
Trade and other payables		(69)	(232)
Borrowings		(999)	(1,192)
Deferred tax		(269)	-
		(1,337)	(1,424)
Total liabilities		(12,506)	(7,812)
Net assets		84,550	48,718
Capital and reserves attributable to owners of Velocys plc			
Called up share capital		1,419	1,164
Share premium account		149,225	95,793
Merger reserve		369	369
Share-based payment reserve		13,220	9,813
Foreign exchange reserve		(2,151)	(3,259)
Accumulated losses		(77,532)	(55,162)
Total equity		84,550	48,718

Consolidated statement of changes in equity

as at 31 December 2014

	Called up share capital £'000	Share premium £'000	Share-based payments reserve £'000	Merger reserve £'000	Foreign exchange reserve £'000	Accumulated losses £'000	Total £'000
Balance at 1 January 2013	914	66,662	7,031	369	(2,990)	(38,241)	33,745
Comprehensive income							
Loss for the year	-	-	-	-	-	(16,921)	(16,921)
Other comprehensive income							
Foreign currency translation differences	-	-	-	-	(269)	-	(269)
Total comprehensive expense	-	-	-	-	(269)	(16,921)	(17,190)
Transactions with owners							
Share-based payments – value of employee services	-	-	2,782	-	-	-	2,782
Proceeds from share issues	250	29,131	-	-	-	-	29,381
Total transactions with owners	250	29,131	2,782	-	-	-	32,163
Balance at 1 January 2014	1,164	95,793	9,813	369	(3,259)	(55,162)	48,718
Comprehensive income							
Loss for the year	-	-	-	-	-	(22,370)	(22,370)
Other comprehensive income							
Foreign currency translation differences	-	-	-	-	1,108	-	1,108
Total comprehensive expense	-	-	-	-	1,108	(22,370)	(21,262)
Transactions with owners							
Share-based payments – value of employee services	-	-	3,407	-	-	-	3,407
Proceeds from share issues	247	51,785	-	-	-	-	52,032
Issue of ordinary shares in relation to business combination	8	1,647	-	-	-	-	1,655
Total transactions with owners	255	53,432	3,407	-	-	-	57,094
Balance at 31 December 2014	1,419	149,225	13,220	369	(2,151)	(77,532)	84,550

Consolidated statement of cash flows

for the year ended 31 December 2014

	2014 £'000	2013 £'000
Cash flows from operating activities		
Operating loss before taxation	(24,551)	(18,145)
Depreciation and amortisation	909	878
Loss on disposal of property, plant and equipment	11	-
Loss on disposal of intangible assets	154	-
Impairment of intangible assets	1,328	-
Share-based payments	3,407	2,782
(Gain) loss on derivative financial instruments	(698)	263
Changes in working capital (excluding the effects of exchange differences on consolidation)		
- Trade and other receivables	282	702
- Trade and other payables	2,507	2,331
- Inventory	(8)	62
Tax credits (paid) received	901	(39)
Other	-	6
Net cash used in operating activities	(15,758)	(11,160)
Cash flows from investing activities		
Purchases of property, plant and equipment	(1,544)	(971)
Purchase of intangible fixed assets	(429)	(418)
Investment in GTL JV	(1,613)	-
Interest received	358	197
Interest paid	(37)	(38)
Proceeds of sale of fixed assets	56	52
Increase in funds placed on deposit	(16,208)	(11,875)
Net cash used in investing activities	(19,417)	(13,053)
Cash flows from financing activities		
Net proceeds of issuance of ordinary shares	51,570	29,381
(Decrease) increase in borrowing	(104)	70
Net cash generated from financing activities	51,466	29,451
Net increase in cash and cash equivalents	16,291	5,238
Cash and cash equivalents at beginning of year	14,475	9,451
Exchange gains (losses) on cash and cash equivalents	927	(214)
Cash and cash equivalents at end of year	31,693	14,475

Notes to the accounts

for the year ended 31 December 2014

1. Principal accounting policies

Basis of preparation

The financial information presented by the Directors in this statement is derived from the Company's financial statements for the year ended 31 December 2014 that have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified for fair value under IFRS 13 "Fair value measurement".

The accounting policies adopted are consistent with those disclosed in the Company's statutory accounts for the year ended 31 December 2014.

These accounts have been audited and the audit report is unqualified and does not contain a statement under section 237 of the Companies Act. The accounts will be delivered to the Registrar of Companies following the Company's annual general meeting on 23 June 2015.

Functional currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in UK sterling (£), which is the parent company's functional and the Company's presentation currency.

2. Exceptional items

Items that are material because of their size or nature, and/or that are non-recurring are considered as exceptional items and are presented with the line items to which they best relate. During the year, exceptional items, as detailed below, have been included in the consolidated income statement.

	2014 £'000	2013 £'000
Impairment of intangible assets	(1,328)	-
Reversal of revenue	(1,742)	-
Reversal of cost of sales	1,742	-
	(1,328)	-

The impairment of intangible assets relates to the full impairment of one of the Company's six cash-generating units.

The revenue reversed was generated in the Americas.

The reversals of revenue and costs of sales are related to the restructuring of a major multi-year supply contract for FT reactor cores which was formally agreed in early 2015. The terms of the revised agreement, which provides a more consistent measure of cost of each reactor, resulted in a change in the method of recognising the revenue and costs related to the build of the commercial reactors. The Company will now recognise revenue and costs upon delivery of the commercial reactors under IAS 18 and no longer use the percentage of completion method under IAS 11. The reversals of revenue and costs of sales represent the unwinding of the percentage of completion method for 2013.

None of the exceptional items described above has any cash flow impact.

3. Segmental information

The chief operating decision-maker has been identified as the Senior Management Team ("SMT"). This committee reviews the Company's internal reporting in order to assess performance and allocate resources. The SMT has determined the operating segments based on these reports.

The SMT considers that the business comprises a single activity which is the design and development of technology for synthetic fuels production. The SMT reviews the Company's profit or loss and its cash flows, assets and liabilities on a Company-wide basis. In carrying out these reviews, the SMT considers all material items of income and expenditure that are directly attributable to individual commercial projects and development programmes. The internal management reports do not allocate assets and liabilities or shared overheads to individual products or projects.

Based on the above considerations, there is considered to be one reportable segment, synthetic fuels. The business is segmented on the basis that the key end use market is that of synthetic fuels production. At this stage, the synthetic fuels segment represents over 90% of the business and therefore represents the only material segment.

Internal and external reporting is on a consolidated basis, with purchases and sales between subsidiaries eliminated on consolidation. Therefore, the segmental and financial information is the same as that set out in the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows and the consolidated statement of changes in equity.

The SMT assesses the performance of the operating segment based on a measure of operating loss.

The Company's operating segment operates in three main geographical areas. Revenue before exceptional items is allocated based on the country in which the customer is located.

	2014			2013		
	Europe £'000	Americas £'000	Asia Pacific £'000	Europe £'000	Americas £'000	Asia Pacific £'000
Total revenue before exceptional items	207	1,090	439	45	1,924	2,784

Revenues during the year were generated in the United Kingdom and United States.

Non-current assets, consisting primarily of goodwill, other intangible assets, investment in GTL JV and property, plant and equipment, totalling £33,157,000 (2013: £26,039,000) were located in the United States of America. All other non-current assets are held in the United Kingdom.

4. Loss per share

The basic loss per share is calculated by dividing the loss attributable to owners of Velocys plc by the weighted average number of ordinary shares in issue during the year.

	2014	2013
Loss attributable to owners of Velocys plc (£'000s)	(22,370)	(16,921)
Weighted average number of ordinary shares in issue	122,062,050	115,929,849
Basic and diluted loss per share (pence)	(18.33)	(14.60)

5. Short term investments, cash and cash equivalents

	2014 £'000	2013 £'000
Short term bank deposits	28,083	11,875
Cash at bank and in hand	31,693	14,475
Total cash and cash equivalents	59,776	26,350

Under IFRS 7, cash held on term deposits of greater than 3 months has been classified as a short term investment.

Both short term investments and cash and cash equivalents, are denominated in UK sterling and US dollars, as follows.

	2014 £'000	2013 £'000
UK Sterling denominated:		
Short term bank deposits	21,000	11,875
Cash at bank and in hand	24,039	8,813
Total	45,039	20,688

	2014 £'000	2013 £'000
US Dollar denominated:		
Short term bank deposits	7,083	-
Cash at bank and in hand	7,654	5,662
Total	14,737	5,662

6. Investments

	2014 £'000	2013 £'000
Investment in GTL JV	1,613	-
Foreign exchange	98	-
	1,711	-

Available for sale financial assets purchased for cash in 2014 represent the purchase of an 8.6% minority interest in a GTL joint venture. In 2014 the Company entered into an exclusive joint venture (GTL JV) with established players in the gas and energy markets to develop GTL plants using a combination of renewable biogas (including landfill gas) and natural gas. The investment is measured at fair value on the balance sheet date and any changes in value are included in the consolidated income statement. The investment was remeasured at 31 December 2014 and there was no change in value. This is a level 3 fair value measurement. The investment is denominated in US dollars. The Company is committed to a further investment of £1,653,000.

7. Acquisition of a subsidiary

On 25 June 2014, the Company acquired 100% membership interest in a projects development company, Pinto Energy, LLC, subsequently rebranded Velocys Project Solutions (VPS), along with its Ashtabula GTL project and pipeline of other opportunities.

Through its acquisition the Company has expanded its commercial operations to actively pursue project development opportunities. VPS is one of the leading project developers of smaller scale GTL in North America. Through its most advanced project to date, VPS is developing a facility for a GTL plant to produce approximately 4,800 barrels per day (bpd) on an 80 acre industrial site that it owns near the Port of Ashtabula, Ohio, USA. Final investment decision in the Ashtabula plant by outside investors currently being solicited by VPS and the Company is expected towards the end of 2015. Future expansions could see installed capacity upwards of 10,000 bpd at the site. In addition to Ashtabula, VPS has a pipeline of smaller scale GTL projects it is seeking to develop throughout North America.

Goodwill of £1,865,000 arising from the acquisition is attributable to the acquired pipeline of potential projects. The deferred consideration of £1,763,000 arose on the acquisition of Velocys Project Solutions and is due within one year.

The following table summarises the consideration for VPS, the fair values of the assets acquired and liabilities assumed at the acquisition date.

	Fair value £'000
Consideration at 25 June 2014	
Equity	1,655
Cash	462
Deferred consideration	1,763
Total consideration	3,880
Recognised amount of identifiable assets acquired and liabilities assumed	
Land	940
Other intangible assets	1,344
Total identifiable net assets	2,284
Deferred tax liability	(269)
Goodwill arising on acquisition	1,865
Total	3,880

The total purchase consideration of £3,880,000 comprised an upfront amount of £1,655,000 through the issue of 754,887 shares in Velocys plc, £462,000 paid in cash for outstanding obligations, and deferred consideration of £1,763,000 that will also be settled by the issue of shares in Velocys plc. The deferred consideration is contingent on the achievement of final investment decision on the plant in Ashtabula. A discount has been applied to the deferred consideration based on the Company's estimate of the percentage likelihood of achieving final investment decision within a specified time period.

Acquisition costs have been charged to other administrative expenses in the consolidated income statement for 2014. There were no acquisitions in the year ended 31 December 2013.

The fair value of the 754,887 shares issued as the consideration paid for VPS was based on an average of the published share price from 17 June 2014 to 24 June 2014.

The deferred consideration arrangement requires the Company to pay, in shares of Velocys plc, to the former owners of VPS contingent upon the achievement of final investment decision on the plant in Ashtabula in a specified timeframe. The fair value of the deferred consideration was

£1,763,000. The fair value estimates are based on a discount rate of 25%. This is a level 3 fair value measurement.

Other intangibles of £1,344,000 represent the discounted value of future income to be received by the Company upon obtaining a final investment decision by outside investors currently being sought to invest in the Ashtabula project. The fair value estimates are based on a discount rate of 63% reflecting the probable level of the eventual fee as well as the likelihood of the project proceeding; this is a level 3 fair value measurement.

8. Derivative financial instruments

The Company sells Sterling and buys US Dollars to fund its operations in the United States, for which purpose it makes use of forward contracts and options. At 31 December 2014 the notional principal amounts of the outstanding forward foreign exchange contracts were £14,000,000 (2013: £4,000,000), and the notional principal amount of outstanding forward foreign exchange options was £nil (2013: £1,000,000). All the outstanding contracts will mature during 2015. Gains and losses against the US Dollar exchange rate as at 31 December 2014 are recognised in finance income in the consolidated income statement and in current assets in the consolidated statement of financial position.

9. Statutory information

Copies of the 2014 annual report will be posted to shareholders at least 21 days before the Company's annual general meeting and may be obtained from the date of posting for one month free of charge from the registered office of Velocys plc, 115e Olympic Avenue, Milton Park, Abingdon, OX14 4SA, as well as from the Company's web site www.velocys.com.

10. Annual general meeting

The annual general meeting ("AGM") is to be held on 23 June 2015. Notice of the AGM will be dispatched to shareholders with the Company's report and accounts.