News release

Velocys plc

("Velocys" or "the Company")

6 August 2020

Final results for the year ended 31 December 2019

Velocys plc (VLS.L), the sustainable fuels technology company, is pleased to announce its final audited results for the year ended 31 December 2019.

Highlights

- Fund raise of £7m (before expenses) in July 2019 and an additional fund raise of £21m (before expenses) in July 2020.
- Altalto Immingham Project strategic partners, British Airways and Shell, commitment of £2.8 million in July 2019.
- Revenue of £0.3m (2018: £0.7m).
- Operating loss of £9.6m, before exceptional items including a credit of £0.1m related to impairments (2018: loss of £18.6m before exceptional items of £10.1m).
- Administrative expenses before exceptional items reduced significantly to £9.9m (£9.8m after exceptional items) compared to 2018 £19.1m (£29.1m after exceptional items).
- Loss before income tax of £10.0m before exceptional items including a credit of £0.1m related to impairments (2018: loss of £20.0m before exceptional items of £10.9m).
- Cash at period end £4.8m (31 December 2018: £7.0m).
- Amended Red Rock Biofuels licensing contract in February 2019 with delivery of the first reactor in Q4 2019 and completion of delivery of the other 3 reactors in H1 2020.
- Planning application for a commercial waste to fuel plant submitted to North East Lincolnshire County Council for the Altalto Immingham project.
- Contracted, manufactured and now delivered Fischer-Tropsch (FT) reactors and catalyst to Toyo Engineering Corporation (Toyo) for use in a biomass-to-jet fuel demonstration facility in Nagoya, Japan.
- Bayou Fuels project set to produce negative emission fuels after signing Carbon Capture Utilisation and Storage (CCUS) agreement with Oxy Low Carbon Ventures.
- Appointed Worley (EPC) to manage delivery of our technology globally.
- Licensors on-board include: TRI, Arvos, Air Liquide, Linde and Haldor Topsoe A/S.
- Velocys classified as a Green Economy Issuer by the London Stock Exchange.

Henrik Wareborn, CEO of Velocys, said:

"In 2019, we moved forward from demonstrating our technology in 2018 to manufacturing and delivery of reactors, catalysts and engineering services to our clients Red Rock Biofuels and Toyo Engineering. Velocys is on track to create significant value as a technology enabler of advanced sustainable fuels.

"Our investors demonstrated strong support for our strategy in our recent successful fundraises of July 2019 and July 2020. This has been complemented by the hard work, ingenuity, and dedication of all our employees creating a platform from which Velocys can deliver significant shareholder value.

"The Company took measures in response to the Covid-19 crisis at a very early stage. Employee well-being and safety was the primary focus and together we implemented a comprehensive work from home policy. I thank my colleagues for their pro-active approach in this crisis which has allowed us to operate near to normal, satisfy the delivery requirements to our clients and stay on schedule with our reference projects.

"2019 saw the emergence of a powerful global voice advocating the importance of tackling the sources of climate change and air-quality deterioration with immediate concrete solutions. Pressure mounted on governments, industry and individuals to take action. Heavy transportation, especially aviation, remains one of the hardest sectors to decarbonise. The drive for decarbonisation, including net zero targets, has gained strong momentum requiring industry and fuel providers to invest significantly in carbon emissions reductions technology. We are ideally placed with our commercially demonstrated technology and business model to accelerate the supply of Sustainable Aviation Fuels.

"I would like to thank all my colleagues at Velocys for their continued commitment and relentless efforts during the intensive phase of technology delivery and project development during 2019.

"In December 2019, we welcomed our new Chairman, Philip Holland, who brings much experience and insight to Velocys. I would also like to thank Dr. Pierre Jungels for his continued support during 2019 and wish him well for the future."

For further information, please contact:

Velocys Henrik Wareborn, CEO Andrew Morris, CFO Lak Siriwardene, Head of Communications and Sustainability	+44 1865 800821
Numis Securities (Nomad and joint broker) Stuart Skinner	+44 20 7260 1000
Canaccord Genuity (Joint broker) Henry Fitzgerald-O'Connor James Asensio	+44 20 7523 8000
Radnor Capital (Investor Relations) Joshua Cryer Iain Daly	+44 20 3897 1830
Field Consulting (PR) Robert Jeffery	+44 20 7096 7730

Certain information contained in this announcement would have constituted inside information (as defined by Article 7 of Regulation (EU) No 596/2014) prior to its release as part of this announcement.

Web | Twitter

Chairman's statement

In 2019 Velocys completed its transition from its historical base as a research focused organisation to one of being capable of delivering its micro-channel Fischer- Tropsch ("FT") technology for incorporation into commercial scale waste to sustainable fuel plants. This has been a significant achievement and has established Velocys as a credible technology provider to sustainable fuels producers, enabling a major increase in the production of both sustainable jet fuel for the global aviation industry and low carbon diesel for the automotive industry.

The demand for sustainable jet fuel could not be more obvious. Velocys is in a unique position to offer a de-risked, scalable and executable solution to convert widely available waste feedstocks into sustainable jet fuel with a minimal carbon intensity both in the USA and in the UK.

Market and Strategy

Our hybrid capital-light business model centres around (1) securing the adoption of our unique technology solution into the two reference projects being the Altalto Immingham Project in the UK and the Mississippi Biorefinery Project in the USA and (2) also supply and service third party projects where our technology solution has been selected for the core processing units. We will be intimately involved in both reference projects from inception to financial close and we have brought in strategic partners such as British Airways and Shell into the Altalto Immingham Project.

We are negotiating with US parties to secure the FEED funding of the Mississippi Biorefinery Project. This ensures our technology is deployed in our chosen market of waste-to-liquid fuels, whilst at the same time we have developed an integrated technology package that can be deployed for sustainable feedstock to liquid fuels production for new customers around the world. We are supplying our FT technology to our current commercial clients, Red Rock Biofuels and Toyo Engineering. They are both making good progress on their respective biomass to fuels projects.

In supporting the aviation industry in its de-carbonisation efforts, Velocys is able to provide two complementary commercial solutions:

- Firstly, as the developer of waste-to-sustainable fuel plants, as evidenced by our two current projects; the Altalto Immingham Biorefinery Project to be constructed at Immingham in the UK, and our Mississippi Biorefinery to be constructed at Natchez in the USA. The Altalto project has secured Planning Permission in May 2020. This will be followed by further technical work, supported by Shell and British Airways, to further de-risk the project and enable an investment decision to be taken in 2022. Development work in 2019 on our Mississippi Biorefinery Project included securing an agreement with a subsidiary of Occidental to provide carbon dioxide sequestration facilities and development of a solar power solution. The inclusion of these two opportunities results in both significant reductions in capex and a facility that has the ability to produce sustainable jet fuel with a negative carbon intensity.

- Secondly, as the owner of patented FT micro-channel technology for the conversion of synthetic gas to liquids we are able to provide commercial scale reactors to third party developers of waste-to-sustainable fuel plants as evidenced by the use of Velocys reactors at two facilities in the US; our Oklahoma plant at which we demonstrated our reactor technology at commercial scale in 2017/2018, and also at Red Rock Biofuels, a third party facility that began construction at Lakeview Oregon in 2018 and is due to commence operations in 2021. The first of four reactors were delivered to our Red Rock Biofuels client in 2019. The remaining three have been delivered in the first half of 2020.

Management and Board

Darran Messem and I joined the Velocys Board in January 2019. The Board structure for the majority of 2019 was led by Pierre Jungels as Chairman, with me as Senior Independent Director, and member of the Audit & Risk, Remuneration and Nomination Committees. Mr. Messem Chaired the Remuneration Committee and was member of the Audit & Risk and Nomination Committees. Sandy Shaw continued in her role as Chair of the Audit & Risk Committee and member of the Remuneration Committee. In September 2019, Sandy Shaw resumed her former position as Chair of the Remuneration Committee, and Darran Messem replaced her as Chair of the Audit & Risk Committee.

Further to his notification in the 2018 Annual Report, Dr. Jungels stepped down as Chairman in December 2019, and was succeeded by me. I would like to express sincere and grateful appreciation to Dr. Jungels on behalf of all Velocys' stakeholders for the outstanding contribution he made during his tenure as Chairman, directing the efforts of the organisation from being research based to now being able to offer its technology on a commercial basis to an expanding client base.

Corporate governance

The Directors recognise the value and importance of good corporate governance and are committed to drawing upon best practice and maintaining high standards. Led by the Chairman, the Velocys Board follows the ten principles of corporate governance set out under three headings in the Quoted Companies Alliance Code.

Fundraising

In July 2019 Velocys raised a total of £7.0m (before expenses) via a firm placing and an open offer. We have received strong support from existing and new institutional investors including new VCT investors, for which we are grateful. All Board Directors participated in this round of funding. This complements the commitments by Shell and British Airways to co-fund the remaining pre-FEED project work to bring the Altalto Immingham Project to the same state of pre-FEED completion as our Mississippi Biorefinery Project. This provided the Company with sufficient funding to deliver its strategy for a year supported by revenues received from technology sales and support services.

In July 2020 the Company successfully raised £21.0m (before expenses) through a Placing, Retail Offer and an Open Offer, with the Open Offer enabling all eligible shareholders as well as new smaller investors to participate. We are delighted with the strength of support shown by both new and existing investors in this fundraising as the issue was significantly oversubscribed. We are particularly pleased to see a number of high-quality institutional investors join our shareholder register.

Outlook

The transformation of Velocys from a research and development focus to a solution provider for the future sustainable fuels industry having been completed, 2020 will further establish Velocys as a significant player in that industry. With the delivery of reactors and catalyst to our customers in 2020 as a provider of technology and equipment to third party sustainable fuel project developers, Velocys will further increase its ability to generate revenues from licensing fees, royalty fees, catalyst sales, equipment supplies, and professional technical services.

The Executive Team will place significant emphasis during 2020 on cementing Velocys' position in the marketplace and securing future opportunities for enhancing revenues from third-party developers.

Technical development work in 2020 will focus on finalising the technical definition of our two reference projects such that they are appropriately positioned in terms of capital requirements and commercial returns to attract the necessary investment support. This technical development work will include concluding Licensor Agreements and the necessary engineering, procurement and construction expertise from our world class engineering contractor, Worley, to finalise the technical definition for both projects.

At the time of writing this Chairman's statement, the majority of the world's population is experiencing some form of lockdown in an effort to control the spread of the COVID-19 Coronavirus. Velocys has taken all necessary measures to protect its staff, both in the UK and the USA, from being exposed to the transmission of this disease, by instituting 100% work from home procedures for all its employees. With the support of our suppliers we have been able to continue the critical work of reactor manufacturing for our client Red Rock Biofuels. This has enabled Velocys to complete the delivery of all the reactors in Q2 2020 as agreed.

We deployed staff to our Japanese client to assist in catalyst loading of the reactor cores that were delivered in Q1 2020. With the support of Worley we have been able to continue to progress the technical development of the Altalto Immingham Project on schedule.

2019 saw the emergence of a powerful voice globally advocating the importance of immediate action to avoid the adverse effects of climate change and the urgent need for governments, industry and individuals to take action. The drive for industrial decarbonisation has strong momentum and will see industry and fuel providers seeking ways of contributing significantly to assist the aviation industry to reduce its carbon emissions. Velocys' technology and business model are ideally placed to accelerate the supply of Sustainable Aviation Fuel.

CEO's Report

2019 has been a positive year for the Company. The demand is growing for our integrated Fischer-Tropsch technology and associated engineering services for conversion of waste feedstocks to advanced sustainable fuels.

Following the completion in 2018 of the commercial scale and integrated demonstrations of our technology in Oklahoma and North Carolina, we have concentrated our efforts in 2019 on building our capability to deliver our technology at scale to clients. Velocys has transitioned from research, development and demonstration to commercial-scale client delivery. We have delivered all of our reactors and catalyst charges to our clients in Oregon and Japan.

Velocys is committed to seamless delivery to our clients of hardware in the form of reactors and catalyst as well as providing engineering services and commercial solutions during the feasibility and FEED stages. We also provide commissioning and start-up services along with on-going engineering and optimisation support over the lifetime of the technology site license contracts.

None of this would have been possible without the support of our shareholders, new and old, in 2019 along with the hard work, ingenuity and dedication of all our employees.

Market dynamics

There has been a distinct movement in 2019, particularly in the last quarter, in the climate change debate with commercial solutions for sustainable aviation and decarbonised fuels gaining momentum. The need for a solution is now widely covered in mainstream media and Velocys has been recognised broadly as a potential critical provider of such a solution in global media during the year.

Velocys fully supports the Sustainable Aviation ("SA")[1] initiative, which comprises UK aviation partners and takes a collective approach to address the challenge of ensuring a cleaner, quieter and smarter future for the industry. SA has provided a new aviation industry roadmap forecasting that sustainable aviation fuels could meet 32% of aviation fuel demand by 2050. This formed part of a wider announcement by the industry coalition committing to net zero carbon emissions by 2050. The FT technology provided by Velocys will contribute significantly towards reaching these targets. As members of the Carbon Capture and Storage Association[2] we support the development and deployment of CCS worldwide.

Climate change and green energy remain at the top of global agendas with challenging but realistic net zero targets. Established technologies, such as ours, are now in demand in order to reach net-zero targets through the decarbonisation of transport, with aviation and heavy goods transport being two of the most challenging sectors.

1 www.sustainableaviation.co.uk
2 www.ccsassociation.org

Talent retention

A three-year Long-Term Incentive plan ("LTIP") based on equity options with a strike price based on the previous fund raise in July 2019, which was double the share price at the time of the award in December 2019, was implemented for a broad group of employees in December 2019 along with a special equity based award for all employees. No such awards have been made since 2014.

Commercial success

In 2019 Velocys delivered a number of key commercial developments:

Red Rock Biofuels, Oregon biorefinery

RRB commenced construction during 2018 at Lakeview, Oregon. During 2019 we amended our license contract with RRB, reducing the commitment for reactors from six to four, with an option for RRB to acquire two further reactors before the end of 2020. Manufacturing the reactors and catalyst for this £9.2m order commenced in 2019. During the year we invoiced a further £0.9m upon the delivery of the first reactor and four charges of catalyst. We have £5.6m deferred revenue subject to the completion of the delivery and commissioning of three more reactors, all of which completed manufacturing in the first half of 2020.

Toyo Engineering Corporation, Nagoya, Japan

Toyo placed an order with Velocys in September 2019, worth approximately £0.4 million, to supply an FT site license, reactor and catalyst for a biomass-to-jet fuel demonstration facility which completed construction in March 2020 by a consortium of Japanese companies. This plant is now in operation and is producing liquid fuels.

In addition, Velocys has agreed that it will grant an exclusive right to Toyo for a site license and technical services of the Velocys FT Technology for a future potential commercial plant in Japan with an advance deposit of £3.2 million. The deposit has been paid in a non-refundable tranche of £0.4 million and a further tranche which is potentially refundable and subject to milestones.

Velocys has also been invited to participate in pre-feasibility work for a number of projects around the world of similar scale and scope to our two reference projects.

Technology and Operations

We have scaled-up manufacturing operations to fulfil our recent reactor and catalyst orders from the US and Japan. The FT reactor cores are manufactured in Alabama using highly customised laser welding technology, and then enclosed in a pressure vessel at a separate location. Our proprietary Actocat catalyst is also manufactured in the US under the supervision of Velocys specialists.

Our progress includes new manufacturing equipment being incorporated into the production line of the cores that hold the catalyst and cooling panels of the reactors to scale-up delivery while following a very strict quality assurance programme. We also successfully implemented the on-site high pressure testing of the cores, and the full automation of laser welding of coolant panels.

Commercial demonstration plant: Post-operative analysis of FT reactors

The two full-scale FT reactors from the demonstration plant in Oklahoma, with combined runtime in excess of 6,000 hours have provided invaluable data in our post-operative analysis work at our technology centre in Ohio over the course of 2019 and into 2020.

We have collected and processed a vast amount of data from the demonstration plant allowing us to correlate this information with our models to further optimise design and operating parameters. This allows us to improve resilience, volume, and product quality directly benefiting all our current and future clients. This is a critical differentiating capability of Velocys at this early stage of development of the new sustainable fuels industry.

Our reference projects

Altalto Biorefinery, Immingham, UK

In 2019 we secured partner funding of £2.8m for the project we are developing in collaboration with British Airways and Shell. Plans were submitted in August 2019 to North East Lincolnshire Council planning authority for the first commercial-scale waste-to-jet fuel plant in the UK using municipal solid waste as feedstock. As a business we completed a global competitive selection process leading to the appointment of Worley as our global engineering contractor to support the delivery of Velocys' fully integrated technology package and to become the Owner's Engineer for our two reference projects. Velocys continues to engage with the UK Government to secure additional long term policy support required for the project to reach financial close.

Mississippi Biorefinery, Natchez, MS, USA

An agreement was signed with Oxy Low Carbon Ventures, a subsidiary of Occidental, to process biogenic carbon dioxide from the Mississippi plant for permanent sequestration using existing infrastructure near to the current site. We developed a solar power solution for the plant, saving capex and further decreasing the carbon intensity of the fuels produced.

In order to raise the capital for FEED engineering and construction we appointed Hamilton Clark Sustainable Capital in Houston. In addition, detailed due diligence and value-added engagement by potential strategic partners continues. The project has been further optimised to achieve a negative carbon intensity for 20-25 million gallons of sustainable aviation fuel, or diesel and gasoline blendstock, per year from 2025.

Outlook for 2020

During July 2020 the Company raised approximately £21m (before expenses) through a Placing, Retail Offer and Open Offer. The success of this fundraise at a time of international economic distress, particularly in the airlines and oil sector is a great validation of our capital light strategy within the sustainable fuels sector. This has been supported by the UK government who have promoted the green recovery as well as supporting our Altalto Immingham project with a further £0.5m grant, announced in July 2020. This capital raise accelerates our ability to provide commercial scale turn-key solutions to fuel producers in the energy transition away from fossil fuels into sustainable fuels towards improved air quality and net zero carbon emissions.

In 2020 we have seen the continuation of the Altalto development with our strategic collaborators British Airways and Shell investing a further £1m of non-dilutive capital into the project in May at a time of great economic difficulty in the airline industry; we achieved the granting of planning permission for the plant and will now focus on detailed post- planning work in the engineering throughout the rest of the year. We have also completed the FT and catalyst orders to our clients in Oregon and Japan, and expect to secure FEED financing for the Mississippi biorefinery project. We plan to seek and secure pre-FEED engineering contract work from one or more parties for similar type and scale of facilities as our two reference projects.

I believe Velocys is well positioned to create significant shareholder value from our unique position at the cutting edge of sustainable fuels technology. However, there remain many challenges for our business over the next twelve months, not least of which is the recent economic downturn caused by COVID-19. This may manifest itself in delays to the development of our reference projects. A number of the other risks relating to our business are set out in the risk and mitigation section on page 12. The Board monitors these risks proactively and communicates with Shareholders in order to minimise their effects.

My thanks to all my colleagues at Velocys, our shareholders old and new along with our strategic partners for their continued commitment and relentless efforts during the intensive phase of scaling-up technology delivery and project development during 2019 and into 2020.

I would like to welcome Philip Holland as our new Chairman from December 2019, and I would also like to take this opportunity to thank Dr. Pierre Jungels for his continued support to me and the team during the year and wish him well for the future.

Financial review

Revenues

Velocys plc is managed as a single operation and referred to as "the Company" throughout the strategic report. The "Company" results represent the consolidated results and Velocys plc results are for the parent company only. The Company recognised revenue of £0.3m (2018: £0.7m). The 2019 revenue was primarily the result of the delivery of reactor components to Toyo and professional service related to ongoing reference projects. Gross profit decreased to £0.2m (2018: £0.4m).

Expenses and income

Administrative expenses before exceptional items reduced by 48% to £9.9m and £9.8m after exceptional items (2018: £19.1m before and £29.1m after exceptional items). The reduction before exceptional items is principally the result of aggressive cost management and restructuring of certain functions in the Company leading to significantly reduced corporate overhead, third party consulting costs, legal and travel costs.

The exceptional items of £0.1m credit (2018: £10.1m cost) is the impairment of the value of land held as an asset offset by the release of deferred revenue as the part-repayment to the Company of its secured loan to ENVIA.

Other income before exceptional items during the year consisted of £0.08m (2018: £0.04m) from the sale of assets associated with the final closing of the ENVIA plant.

Operating losses were £9.6m, before exceptional items credit of £0.1m related to impairments (2018: £18.6m before exceptional items of £10.1m). The reduction of the operating loss is principally the result of a decrease in administrative expenses period over period.

Assets and Cash

The net assets of the Company were £2.3m, which is down from the £5.4m in 2018. This decrease was principally the result of a reduction of cash and trade and other receivables offset by an increase in deferred revenue and other liabilities.

The cash outflow from the Company in 2019 was £1.4m (2018: £4.3m cash inflow) principally being cash generated from financing activities of £5.7m, principally attributed to £6.6m received after the fund raise that was successfully completed in July, and £2.3m cash generated from investing activities, less £9.4m used in operating activities. The Company continues to carefully manage its underlying cost base and spend prudently on strategy implementation.

The company incurs much of its expenses in US dollars and has exposure to the US dollar exchange rate. This is hedged to the extent possible by holding cash reserves in US dollars. In addition, the majority of the Company's income is currently invoiced in dollars.

Impairment of assets and investments

In 2019, the Company impaired the land associated with a subsidiary based on the fair value less costs of disposal ("fair value"), by reference to a recent appraisal. In 2019, the Company reversed a 2017 impairment of an inventoried reactor that was not used at ENVIA in the amount of £352,000. This reactor was subsequently sold and delivered in 2019 and is currently presented as deferred cost on the 2019 Consolidated balance sheet until the performance obligations, defined under IFRS 15, are met. The reversal of the impairment in inventories was partially offset by the impairment of pre- qualification cores that did not meet quality specifications to be included in the Red Rock Biofuels order, to the amount of £123,000.

During 2018 the Company recorded an impairment of £10.1m with respect to the loan to ENVIA and £0.9m with respect to the investment as a result of an increase in the credit risk arising from ENVIA's decision to suspend activities.

There has been no change in the Board's assessment of the long-term potential of the Company's assets. As a result of the Board's assessment, there has been no impairment of the Company's assets in 2020. The impairments made, except for Goodwill, could be reversed in future if there is a change in the estimates used to determine the asset's recoverable amount, particularly in relation to the share price of the parent Company. At 31 December 2019, the Board did not consider there has been a change in circumstances that would justify reversal of the impairments recorded in 2018 or that additional impairments were required in 2019.

The parent Company has both equity and debt investments in its subsidiaries, which are compared to the recoverable amount. On this basis, the impairment assessment indicated that the carrying value of the investment in subsidiaries was higher than the recoverable amount, determined by fair value less costs of disposal. As a result, an impairment of £3.3m (2018: £33.3m) was recognised. This impairment was eliminated on consolidation and therefore is not seen in these consolidated statements.

ENVIA

In April 2019, the Company completed negotiations with the remaining partners and site landlord on a wind-down for ENVIA. In the wind-down, ENVIA released the site to the landlord and sold certain assets, the proceeds of which were used to fund wind-down operations and repay £3.4m against part of ENVIA's outstanding secured loan obligation to the Company.

Fundraises

In July 2019 Velocys raised a total of £7.0m (before expenses) via a firm placing and an open offer.

Net proceeds of the capital raising are being used to:

- Complete the development capital fund raising and preparation of the FEED for the Mississippi Biorefinery Project;
- Strengthen and extend the Company's intellectual property portfolio;
- Analyse and test catalyst and Fischer-Tropsch reactors from the recently completed full-scale demonstration in Oklahoma; and
- Fund the Company's working capital and central operating costs.

Future funding

With the successful fundraise in July 2020 of £21m (before expenses), the financial statements have been prepared on the going concern basis, which assumes the Company will have sufficient funds available to enable it to continue to trade for the foreseeable future. The cash forecast includes the following assumptions: (i) the completion of the current stage of the FEED for the Altalto Immingham Project prior to securing funding for the next stage of development to financial close; (ii) the completion of the manufacture and delivery of reactors to our customer Red Rock Biofuels; (iii) the continued process of on-boarding one or more strategic investors to provide the final stages of development funding for the Mississippi Biorefinery Project; (iv) revenue from the ongoing support to our customer Toyo engineering in Japan; (v) the current overhead cost run rate.

The Company's plan is to continue working with our investment partners in the Altalto Immingham Project, having secured £1m additional non-dilutive investment in May 2020 and securing further investment into the project along with completing all the engineering design and commercial arrangements required to reach financial close on the project in 2022. At the same time in the USA we are working to secure investment by one or more strategic partners into the Mississippi project. We are also working with several other interested parties in Europe, the USA and the Middle East developing their own projects potentially using our FT technology within an integrated technology package into a complete plant.

Going Concern

The Company assessed its cash requirements from these activities and raised an additional £21m (before expenses) through an equity fundraise via a Placing, Retail Offer and Open Offer. The directors consider that this is sufficient funding for the Company to continue as a going concern beyond twelve months of the date of this report. The directors do not anticipate that any further funding to the Company will come from further placing of the parent company shares during this period. However additional income may come from one, or a combination of, the following sources, with agreements being actively sought from third parties:

- Additional third-party license sales, similar to the Red Rock Biofuels project.
- The realisation of certain assets and the selling of non-core intellectual property.
- Additional strategic investment of development capital into either or both of Altalto Immingham Project and the Mississippi Biorefinery Project, which are expected during 2020 and the first half of 2021.
- UK or USA Government loans or grants.

The directors are confident that the funding received by the Company in July 2020 will ensure that it will continue as a going concern and that there will be sufficient funding in the Company to continue to support its activities for the foreseeable future being not less than twelve months from the date of approval of these financial statements. The directors have therefore prepared the financial statements on a going concern basis. The financial statements do not include the adjustments that would arise if the Company and Velocys plc were unable to continue as a going concern.

As in previous years, the Board will be proposing a further Special Resolution at the forthcoming Annual General Meeting to approve the disapplication of the pre-emption rights equal to 15% of the issued share capital.

Following financial close of one or both reference projects in early 2022, the Company's funding requirements will depend on the final structure of each of the biorefinery project consortia and on the Company's strategy to support projects developed and funded by third parties.

Consolidated income statement

for the year ended 31 December 2019

	Note	**2019** £'000 Before exceptional items	**2019** £'000 Exceptional items (note 2)	**2019** £'000 Total	2018 £'000 Before exceptional items	2018 £'000 Exceptional items (note 2)	2018 £'000 Total
Revenue	3	332	-	332	664	-	664
Cost of sales		(132)	-	(132)	(273)	-	(273)
Gross profit		200	-	200	391	-	391
Administrative expenses		(9,898)	94	(9,804)	(19,060)	(10,067)	(29,127)
Other income	5	79	-	79	36	-	36
Operating loss		(9,619)	94	(9,525)	(18,633)	(10,067)	(28,700)
Share of loss of investments accounted for using the equity method	10	-	-	-	(1,717)	(848)	(2,565)
Loss before net finance (costs)/income		(9,619)	94	(9,525)	(20,350)	(10,915)	(31,265)
Finance income	4	48	-	48	993	-	993
Finance costs		(429)	-	(429)	(628)	-	(628)
Net finance (cost)/income		(381)	-	(381)	365	-	365
Loss before income tax		(10,000)	94	(9,906)	(19,985)	(10,915)	(30,900)
Income tax credit		291	-	291	317	-	317
Loss for the financial year attributable to the owners of Velocys plc		(9,709)	94	(9,615)	(19,668)	(10,915)	(30,583)
Loss per share attributable to the owners of Velocys plc							
Basic and diluted loss per share (pence)	6	(1.91)	-	(1.90)	(5.75)	-	(8.95)

Consolidated statement of comprehensive income

for the year ended 31 December 2019

	2019 £'000 Before exceptional items	2019 £'000 Exceptional items (note 4)	2019 £'000 Total	2018 £'000 Before exceptional items	2018 £'000 Exceptional items (note 4)	2018 £'000 Total
Loss for the year	(9,709)	94	(9,615)	(19,668)	(10,915)	(30,583)
Other comprehensive (expense)/income						
Items that may be reclassified to the income statement in subsequent periods						
Foreign currency translation differences	(262)	-	(262)	897	-	897
Total comprehensive expense for the year attributable to the owners of Velocys plc	(9,971)	94	(9,877)	(18,771)	(10,915)	(29,686)

Consolidated statement of financial position

as at 31 December 2019

	Note	**2019** £'000	(Restated) 2018 £'000
Assets			
Non-current assets			
Intangible assets	7	444	357
Property, plant and equipment	8	1,734	1,819
Right-of-use asset	9	836	-
Trade and other receivables	11	-	281
		3,014	2,457
Current assets			
Inventories	12	3,332	1,438
Trade and other receivables	11	1,637	4,404
Current income tax asset		648	862
Cash and cash equivalents	13	4,797	6,964
		10,414	13,668
Total assets		13,428	16,125
Liabilities			
Current liabilities			
Trade and other payables	14	(1,331)	(3,018)
Lease liability	9	(581)	-
Borrowings		-	(289)
Other liabilities		(2,804)	(2,092)
Deferred revenue	15	(5,562)	(579)
		(10,278)	(5,978)
Non-current liabilities			
Trade and other payables		-	(90)
Lease lability	9	(343)	-
Deferred revenue	15	(470)	(4,634)
		(813)	(4,724)
Total liabilities		(11,091)	(10,702)
Net assets		2,337	5,423
Capital and reserves attributable to owners of Velocys plc			
Called up share capital		6,438	4,105
Share premium account		184,256	180,016
Merger reserve		369	369
Share-based payments reserve		16,225	16,143
Foreign exchange reserve		3,289	3,551
Accumulated losses		(208,240)	(198,761)
Total equity		2,337	5,423

The presentation of called up share capital and share premium in the period 31 December 2018 has been restated with respect to a calculation error in the amount of £2,192,000. The restatement resulted in an increase in called up share capital and a decrease in share premium. Prior to the restatement, at 31 December 2018 called up share capital was £1,913,000 and share premium was £182,208,000.

Consolidated statement of changes in equity

for the year ended 31 December 2019

	Called up share capital (Restated) £'000	Share premium account (Restated) £'000	Merger reserve £'000	Convertible loan/'other' reserve £'000	Share-based payment reserve £'000	Foreign exchange reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 2018	1,468	149,964	369	9,421	16,085	2,654	(167,550)	12,411
Loss for the year	–	–	–	–	–	–	(30,583)	(30,583)
Other comprehensive income								
Foreign currency translation differences	–	–	–	–	–	897	–	897
Total comprehensive expense	–	–	–	–	–	897	(30,583)	(29,686)
Transactions with owners								
Share-based payments – value of employee services	–	–	–	–	58	–	–	58
Proceeds from share issues	2,435	20,205	–	–	–	–	–	22,640
Convertible loan notes	180	8,820	–	(9,000)	–	–	–	–
Interest on convertible loan note	22	1,027	–	(421)	–	–	(628)	-
Total transactions with owners	2,637	30,052	–	(9,421)	58	–	(628)	22,698
Balance at 31 December 2018	4,105	180,016	369	–	16,143	3,551	(198,761)	5,423
Change in accounting policy	–	–	–	–	–	–	136	136
Balance at 1 January 2019	4,105	180,016	369	–	16,143	3,551	(198,625)	5,559
Loss for the year	–	–	–	–	–	–	(9,615)	(9,615)
Other comprehensive expense								
Foreign currency translation differences	–	–	–	–	–	(262)	–	(262)
Total comprehensive expense	–	–	–	–	–	(262)	(9,615)	(9,877)
Transactions with owners								
Share-based payments – value of employee services	–	–	–	–	82	–	–	82
Proceeds from share issues	2,333	4,240	–	–	–	–	–	6,573
Total transactions with owners	2,333	4,240	–	–	82	–	–	6,655
Balance at 31 December 2019	6,438	184,256	369	–	16,225	3,289	(208,240)	2,337

The presentation of called up share capital and share premium in the period 31 December 2018 has been restated with respect to a calculation error in the amount of £2,192,000. The restatement resulted in an increase in called up share capital and a decrease in share premium. Prior to the restatement, at 31 December 2018 called up share capital was £1,913,000 and share premium was £182,208,000.

Consolidated statement of cash flows

for the year ended 31 December 2019

	Note	**2019** **£’000**	2018 £’000
Cash flows from operating activities			
Operating loss		(9,525)	(28,700)
Depreciation and amortisation		1,094	659
Loss on disposal of intangible assets	7	187	627
Impairment of property, plant and equipment	2	439	-
Impairment of loan to associate ENVIA	2	-	10,067
Finance costs		(196)	-
Impairment of inventory		569	-
Share-based payments		82	58
Changes in working capital (excluding the effects of exchange differences on consolidation)			
Trade and other receivables		(165)	(220)
Trade and other payables		(1,687)	(1,125)
Other liabilities		712	2,092
Deferred revenue	15	819	5,213
Inventory		(2,473)	(1,050)
Cash consumed by operations		(10,144)	(12,379)
Tax credits received		736	-
Net cash used in operating activities		(9,408)	(12,379)
Cash flows from investing activities			
Purchase of property, plant and equipment		(779)	(509)
Purchase of intangible assets		(394)	(349)
Payment from (loan to) associate ENVIA		3,432	(5,531)
Interest received		33	74
Net cash generated from/(used in) investing activities		2,292	(6,315)
Cash flows from financing activities			
Proceeds from issues of shares and convertible loan notes		7,000	25,172
Costs of issuing shares and convertible loan notes		(427)	(1,904)
Principal elements of lease payments	9	(479)	-
Interest paid		(5)	(13)
Repayment of borrowings		(371)	(252)
Net cash generated from financing activities		5,718	23,003
Net (decrease)/increase in cash and cash equivalents		(1,398)	4,309
Cash and cash equivalents at beginning of year	13	6,964	2,070
Exchange movements on cash and cash equivalents		(769)	585
Cash and cash equivalents at end of year	13	4,797	6,964

Notes to the consolidated financial statements

1. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are summarised below. The policies have been consistently applied to each year presented unless otherwise stated.

Basis of preparation

The results shown for the years ended 31 December 2019 and 31 December 2018 are audited. The consolidated financial information contained in this announcement does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts of the Company in respect of the financial year ended 31 December 2019 were approved by the Board of directors on 5 August 2020 and will be delivered to the Registrar of Companies in due course. The report of the auditors on those accounts was unqualified and did not contain a material uncertainty paragraph nor any statement under Section 498 of the Companies Act 2006.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU, hereafter referred to as "IFRS"), IFRS Interpretations Committee ("IFRS IC") Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value, where relevant.

The preparation of financial statements to conform to IFRS requires the use of certain critical accounting estimates and the exercise of management's judgement in the application of the Company's accounting policies. Areas involving a higher degree of judgement or complexity, and areas where assumptions and estimates are significant to the financial statements are referenced in note 3, 7, 9 and 10.

Going concern

The financial statements have been prepared on the going concern basis, which assumes that the Company and Velocys plc will have sufficient funds available to enable them to continue to trade for the foreseeable future.

The Company expects to develop its reference projects, in particular, the Mississippi Biorefinery Project and Altalto Immingham Project, which will require significant development and capital expenditure.

The nature of the Company's strategy means that the timing of milestones and funds generated from developments are difficult to predict at this stage. The directors have prepared financial forecasts to estimate the likely cash requirements of the Company and Velocys plc over the next twelve months from the date of approval of the financial statements.

During July 2020 the Company raised £21 million (before expenses) by way of a Placing, Retail Offer and Open Offer. The directors consider that this is sufficient funding for the Company to continue as a going concern beyond the twelve months of the date of this report. The directors do not anticipate that any further funding to the Company will come from further placing of the parent company shares during this period. However additional income may come from one, or a combination of, the following sources, with agreements being actively sought from third parties:

- Additional third-party license sales, similar to the Red Rock Biofuels project.
- The realisation of certain assets and the selling of non-core intellectual property.
- Additional strategic investment of development capital into either or both of Altalto Immingham Project and the Mississippi Biorefinery Project, which are expected during 2020 and the first half of 2021.
- UK or USA Government loans or grants.

The directors are confident that the funding received by the Company in July 2020 will ensure that it will continue as a going concern and that there will be sufficient funding in the Company to continue to support its activities for the foreseeable future being not less than twelve months from the date of approval of these financial statements. The directors have therefore prepared the financial statements on a going concern basis.

In addition to the July 2020 Placing, Retail Offer and Open Offer, the Company executed an extension of the Altalto Joint Development Agreement providing £1m non-dilutive investment into the Altalto Immingham Project; was awarded a forgivable loan as part of the Pay-check Protection Program awarded by the SBA, a US Federal Agency in the amount of £572,000; and has been awarded a further £0.5m F4C grant from the Department of Transport in the UK.

The financial statements do not include any adjustments that would arise if the Company and Velocys plc were unable to continue as a going concern.

Accounting developments

New and amended standards adopted by the Company
The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- IFRS 16 "*Leases*" – ("IFRS 16")
- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

The group also elected to adopt the following amendments early:

- Definition of Material – Amendments to IAS 1 and IAS 8.

IFRS 16 *Leases*
The Company has adopted IFRS 16 retrospectively on 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Company recognised lease assets and current and non-current lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was approximately 21%.

Significant judgements and estimates were used with respect to the incremental borrowing rate, as the Company currently has no outstanding significant debt. Also, significant judgement and estimates were used in the calculation of lease term as some leases are expected to be extended beyond the stated lease term.

Practical expedients applied
In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics,
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019,
- accounting for operating leases with a remaining lease term of less than twelve months as at 1 January 2019 as short-term leases,

- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and Interpretation 4 Determining Whether an Arrangement contains a Lease.

Measurement of lease liability

	£'000
Operating lease commitments disclosed as at 31 December 2018	1,314
Discount based on incremental borrowing rate at 1 January 2019	(234)
(Less): short term/low value leases recognised on a straight-line basis as expense	(42)
Lease liability recognised as at 1 January 2019	**1,038**
Of which are:	
Current liabilities	409
Non-current liabilities	629
	1,038

Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use asset – increase by £1,038,000
- Lease liabilities – increase by £1,038,000
- Accrued Rent – decrease by £88,000

The net impact on retained earnings on 1 January 2019 was an increase of £88,000.

Significant accounting policies

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of Velocys plc's subsidiaries 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 sterling (£). It should be noted that the functional currency for Velocys plc is GBP as Velocys plc is traded on the AIM market and is head quartered in the UK. Currently all new equity based fund raises are completed in the UK and made in GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income statement. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Income statement within Finance income or Finance costs.

The net investment that Velocys plc has in its subsidiary undertakings is its interest in the net assets of that subsidiary.

Entities within Velocys
The results and financial position of all Velocys entities that have a functional currency different from the presentation currency (none of which is of a hyper-inflationary economy) are translated into the presentation currency as follows:

1. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
2. income and expenses for each income statement are translated at average exchange rates; and
3. all resulting exchange differences are recognised as a movement within other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Other significant accounting policies are incorporated in the note to which they apply.

2. Exceptional items

Items that are significant by virtue of their size or nature, which are considered non-recurring and which are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Company are classified as exceptional operating items. Exceptional operating items are included within the appropriate Consolidated income statement category but are highlighted separately in the notes to the financial statements.

The following exceptional items have been included in the Consolidated income statement.

	2019 £'000	2018 £'000
Administrative expenses:		
Property, plant and equipment impairment	(439)	-
Recovery/(impairment) of loan to associate ENVIA	533	(10,067)
	94	(10,067)
Impairment in carrying value of equity accounted associate	–	(848)
	–	(848)
Total	94	(10,915)

Administrative expenses
Property, plant and equipment impairment – in 2019, the Company made an impairment of £439,000 (2018: £nil) for the land associated with a subsidiary based on a current valuation appraisal by a third party expert. The value of the land either for development or for a sale of the land determined a lesser value than was held as an asset. As a result of the third party's appraisal, the Company determine that the land required an impairment.

Recovery/(impairment) of loan to associate ENVIA – In 2019 the Company released deferred revenue in the amount of £533,000 in final settlement of the ENVIA loan receivable balance representing a recovery on the impairment recorded in 2018.

Impairment in carrying value of equity accounted associate - the Company is required to assess, at the end of each reporting period, whether there is any indication that an asset may be impaired. Given the investment was fully impaired in the prior year there were no further impairment considerations. Management also assessed and confirmed that a write back of the prior year impairment is not appropriate, given operations at ENVIA ceased in 2018. In 2018 the Company recorded an impairment of its investment in associate in the amount of £848,000.

3. Revenue

The Company adopted IFRS 15 on 1 January 2018, using the full retrospective transition method. The Company generates revenue through contracts in which it (i) sells Fischer-Tropsch reactors, (ii) sells Fischer-Tropsch catalyst, (iii) provides license agreements and (iv) performs engineering services. In general, contracts with the Company provide a license agreement for the use of its intellectual property associated with the catalyst and reactors both of which have been specifically designed and over which the Company holds a significant number of patents. The majority of the Company's revenue is derived from a small number of significant commercial customers and development partners.

Revenue is recognised when the Company satisfies a performance obligation by transferring promised goods or services to a customer. The sales income related to sales of catalyst will be recognised as the performance obligations are satisfied. Revenue from engineering services is earned on a time and materials basis and is recognised as the work is performed provided that it does not relate to the sale of equipment and therefore is bound by the performance obligations of that sale.

If the entity is providing a single performance obligation in the form of an integrated set of activities, each contract is assessed to determine if it meets the criteria for recognition over time. This would require the contract to either transfer control of the combined output over time or for the entity to have an enforceable right of payment for the performance completed to date for activities that do not create an asset with alternative use. One contract that was signed in 2018 but delivery was started in 2019 and will be completed in 2020 has been assessed as a combined performance obligation and it was determined that none of these criteria have been met as at the year end. As such, all consideration received has been deferred and revenue will be recognised when the project performance obligations have been met.

Critical estimates and judgements

Determining whether the goods or services provided are considered distinct performance obligations from the supply of equipment can require significant judgment. The Company's agreements, in some instances, could have a single performance obligation, which would result in the deferral of revenue until the performance obligation is satisfied. This is the case when the entity promises an integrated package of goods and services and where the customer is receiving a combined output (for example, an engineering service that results in operational technology at a particular site). In other instances, there will be no integration service and each good or service will be considered separately.

When there are multiple performance obligations, revenue from goods or services is allocated to the respective performance obligations based on relative standalone selling prices and is recognised as the performance obligations are satisfied. Revenue from goods or services is measured as the amount of consideration expected to be received in exchange for the goods and services delivered.

	2019 **£'000**	2018 £'000
FT reactor, catalyst and licence	273	508
Engineering services	59	156
Total	332	664

FT reactor, catalyst and license revenue in the amount of £273,000 for the year ended December 31, 2019 consisted principally the sale of substacks to a customer in Japan in the Asia Pacific region (2018: £508,000).

4. Finance income

	2019 **£'000**	2018 £'000
Interest income on bank deposits	48	76
Interest on loan to associate	–	732

Foreign exchange gains	–	185
Total	48	993

In 2018, the Company stopped recognising interest on loan to associate as a result of the impairment of the investment in ENVIA (see Notes 10 and 11 for further information).

5. Other income

Other income consists of items such as sales of fixed assets and any other operating income recognised outside of commercial activities.

	2019 £'000	2018 £'000
Return on deposits	–	22
Sale of fixed assets	79	14
Total	79	36

6. Loss per share

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

	2019	2018
Loss attributable to owners of Velocys plc (£'000s)	(9,615)	(30,583)
Weighted average number of ordinary shares in issue	507,218,656	341,867,109
Basic and diluted loss per share (pence)	(1.90)	(8.95)

Diluted loss per share is calculated by adjusting the weighted average number of shares in issue to assume conversion of all potential dilutive shares. Share options have not been included in the number of shares used for the purpose of calculating diluted loss per share since these would be anti-dilutive for the period presented. At the end of 2019 and 2018 there were no other potentially dilutive instruments.

7. Intangible assets
Significant accounting policies
Cost or valuation and amortisation

In-process technology

Development costs, where the related expenditure is separately identifiable and measurable, and management are satisfied as to the ultimate technical and commercial viability of the project and that the asset will generate future economic benefit based on all relevant available information, are recognised as an intangible asset. Capitalised development costs are carried at cost less accumulated amortisation and impairment losses. Amortisation is charged over periods expected to benefit, typically up to 20 years, commencing with launch of the product. Development costs not meeting the criteria for capitalisation are expensed as incurred.

Patents, licences and trademarks

Patents and trademarks are recorded at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over a period of 20 years, which is their estimated useful economic life. Residual values and useful lives are reviewed annually and adjusted if appropriate. The Company decided to abandon certain non-core patents in 2019 and 2018. This resulted in a loss on disposal of patents of £187,000 (2018: loss of £627,000).

Software

Purchased software is recorded at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over its estimated useful life or its license period, whichever is the shorter.

Impairment

Intangible assets are reviewed for impairment annually and whenever events or changes in circumstances indicate their carrying value may not be recoverable. To the extent carrying value exceeds recoverable amount, the difference is recognised as an expense in the income statement. The recoverable amount used for impairment testing is the higher of value in use and fair value less costs of disposal. For the purpose of impairment testing, assets are generally tested individually or at a Cash Generating Unit ("CGU") level which represents the lowest level for which there are separately identifiable cash inflows that are largely independent of cash inflows from other assets or groups of assets. The Company has one CGU on the basis that the key end use market is that of synthetic fuels production. At this stage, the synthetic fuels segment represents 100% of the business and therefore represents the only material segment. Based on management's judgement, all products and services offered within the operating segment have similar economic characteristics.

An impairment loss in respect of Goodwill is not reversed. An impairment loss in respect of intangible assets (excluding Goodwill) is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the loss was recognised, or if there has been a change in the estimate used to determine the recoverable amount. A loss is reversed only to the extent that the asset's carrying amount does not exceed that which would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Were the fair value of the business to change in the coming twelve months, due to an increase or further decrease in the market capitalisation of Velocys plc, the impairment disclosed in this note would be reversed or the Company's assets would be further impaired accordingly. Upon analysis performed at 31 December 2019, the Company determined that no reversal of prior year impairments was required or additional impairment required. This assessment also considered the operating performance of the Company during 2019 which included progress being made on our reference projects, new funding obtained and customer agreements signed. This 2019 performance, including both negative and positive factors, was also not considered indicative of incremental impairment or reversal of previous impairment.

Critical estimates and judgements

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, a number of indicators of potential impairment. In 2019, the Company considered:

- At 31 December 2019, if the carrying amount of the Company's net assets exceeded Velocys plc's market capitalisation;
- Significant decreases in the market price of the asset; and
- Significant adverse changes in the extent or manner in which an asset is being used.

Based on the 2019 analysis, the Company concluded that no impairment or reversal of previous impairment was required with reference to the 31 December 2019 parent company equity based valuation.

To assess the recoverability of the intangible assets, the recoverable amount is calculated at a CGU level, which represents the lowest level for which there are separately identifiable cash inflows that are largely independent of cash inflows from other assets or groups of assets. As detailed in the accounting policy set out above, the Company is considered to operate as a single CGU. Due to the stage of the Company's strategy, its biorefinery development plans are still too early to provide reliable revenue forecasts for long-term discounted cash flow analysis. Consequently, the CGU's recoverable amount has been determined based on its fair value less costs of disposal (fair value), by reference to the total value of the parent company's equity based on the AIM-listed shares of the parent company, consistent with the impairment assessment performed in the prior year.

	Patents,

2019	Goodwill £'000	In-process technology £'000	licence and trademarks £'000	Software £'000	Total £'000
Cost					
At 1 January 2019	7,398	23,681	1,580	96	32,755
Additions	–	–	394	–	394
Disposals	–	–	(291)	–	(291)
Foreign exchange movement	–	–	(85)	–	(85)
At 31 December 2019	7,398	23,681	1,598	96	32,773
Accumulated amortisation and impairment					
At 1 January 2019	7,398	23,681	1,223	96	32,398
Charge for the year	–	–	112	–	112
Disposals	–	–	(104)	–	(104)
Foreign exchange movement	–	–	(77)	–	(77)
At 31 December 2019	7,398	23,681	1,154	96	32,329
Net book amount					
At 31 December 2019	–	–	444	–	444

2018	Goodwill £'000	In-process technology £'000	Patents, licence and trademarks £'000	Software £'000	Total £'000
Cost					
At 1 January 2018	7,398	23,681	2,159	96	33,334
Additions	–	–	349	–	349
Disposals	–	–	(956)	–	(956)
Foreign exchange movement	–	–	28	–	28
At 31 December 2018	7,398	23,681	1,580	96	32,755
Accumulated amortisation and impairment					
At 1 January 2018	7,398	23,681	1,404	96	32,579
Charge for the year	–	–	96	–	96
Disposals	–	–	(329)	–	(329)
Foreign exchange movement	–	–	52	–	52
At 31 December 2018	7,398	23,681	1,223	96	32,398
Net book amount					
At 31 December 2018	–	–	357	–	357

8. Property, plant and equipment

Property, plant and equipment is stated at historical cost, net of depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to working condition for its intended use. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, which for plant and machinery is three to ten years. No depreciation is provided on land or assets under construction.

Residual values and useful lives are reviewed annually. Values are estimated using benchmark prices at the balance sheet date; useful lives are estimated based on management expectations of future project requirements and operational assessment of the state of assets.

Assets are reviewed for impairment annually and also whenever events or changes in circumstances indicate their carrying value may not be recoverable. To the extent the carrying value exceeds the recoverable amount, the difference is recorded as an expense in the Income statement. The recoverable amount used for impairment testing is the higher of the value in use and fair value less costs of disposal. For the purpose of impairment testing, assets are generally tested individually or at a CGU level, which represents the lowest level for which there are separately identifiable cash inflows, which are largely independent of cash inflows from other assets or groups of assets. Property, plant and equipment were included in the list of items to which an impairment was considered but nothing applied subsequent to the impairment review (see note 7).

An impairment loss in respect of property, plant and equipment would be reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the loss was recognised, or if there has been a change in the estimate used to determine the recoverable amount. A loss is reversed only to the extent that the assets carrying amount does not exceed that which would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Expenditure funded by research partners is only capitalised where there are no significant rights acquired by the third party over the asset and the asset has a clear enduring use beyond the specific funding project, these are regularly reviewed.

2019	Assets under construction £'000	Land £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2019	532	1,285	7,841	9,658
Additions	621	–	158	779
Disposals	–	–	–	–
Transfers to plant and machinery	(171)	–	171	–
Foreign exchange	–	14	111	125
At 31 December 2019	982	1,299	8,281	10,562
Accumulated depreciation and impairment				
At 1 January 2019	33	706	7,100	7,839
Charge for the year	--	–	568	568
Impairment	–	439	–	439
Transfers to plant and machinery	(33)	–	33	–
Foreign exchange	–	(3)	(15)	(18)
At 31 December 2019	–	1,142	7,686	8,828
Net book amount				
At 31 December 2019	982	157	595	1,734

2018	Assets under construction £'000	Lease Assets £'000	Land £'000	Plant and machinery £'000	Total £'000
Cost					
At 1 January 2018	51	-	1,212	8,731	9,994
Additions	476	-	-	33	509
Disposals	(4)	-	-	(1,492)	(1,496)
Transfers to plant and machinery	(16)	-	-	16	-
Foreign exchange	25	-	73	553	651
At 31 December 2018	532	-	1,285	7,841	9,658
Accumulated depreciation and impairment					
At 1 January 2018	31	-	666	7,496	8,193
Charge for the year	-	-	-	563	563
Disposals	-	-	-	(1,466)	(1,466)
Foreign exchange	2	-	40	507	549
At 31 December 2018	33	-	706	7,100	7,839
Net book amount					
At 31 December 2018	499	-	579	741	1,819

As at 31 December 2019, the Company had not entered into any contractual commitments for the material acquisition of property, plant and equipment.

9. Leases

The Company leases certain building and equipment under non-cancellable leases with varying lease terms. Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases under the principles of IAS 17 *Leases*. As a result of the adoption of IFRS 16 on 1 January 2019, the company recognised a right-of-use asset and a lease liability on the Balance Sheet. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was approximately 21%.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. Building leases are typically for a fixed period of time but may have extension options. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

To determine the incremental borrowing rate, the Company uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases, which does not have recent third party financing, and makes adjustments specific to the lease, e.g. term, country, currency and security. The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Interest expense (included in finance costs) was £196,000 (2018: £nil).

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Impairment of right-of-use assets is accounted for under IAS 36.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Expense related to short term leases and lease of low-value was £2,000 (2018: £nil) and were included in administrative expenses.

Critical estimates and judgements
Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates the IBR using a build-up approach as stated above. The incremental borrowing rate is not sensitive to changes as a 10% movement in the IBR does not have a material impact on the lease liability.

Leases - Determining the lease term of contracts with renewal and termination options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

The balance sheet presents the following amounts relating to its right-to-use assets:

Cost	Equipment £'000	Buildings £'000	Total £'000
At 1 January 2019	168	870	1,038
Additions	–	208	208
Foreign exchange	–	18	18
At 31 December 2019	168	1,096	1,264
Accumulated depreciation			
At 1 January 2019	–	–	–
Charge for the year	63	351	414
Foreign exchange	–	14	14
At 31 December 2019	63	365	428
Net Book value			
At 31 December 2019	105	731	836

Additions to right-to-use assets during 2019 were £208,000 relating to the Company's relocation to the Oxford Science Park.

Lease liability	31 December 2019 £'000	1 January 2019 £'000
Current	581	409
Non-Current	343	629
	924	1,038

10. Investment in associate

The Company carries nil value for an Investment in associate. Previously the Company recorded an investment related to Velocys' holding in ENVIA Energy, LLC ("ENVIA"), a US company and the holding company for the project located in Oklahoma (the "ENVIA project"). The Company first invested in ENVIA in 2014 as entry into a joint venture to develop GTL plants in the US using a combination of renewable biogas (including landfill gas) and natural gas. In 2018 the Company impaired the investment in ENVIA to nil value due to the decision by the Board of Directors of ENVIA to shut down the operations in Oklahoma.

	2019 £'000	2018 £'000
Investment in associate		
At 1 January	–	2,580
Share of loss	–	(1,717)
Impairment	–	(848)
Foreign exchange	–	(15)
At 31 December	–	–

11. Trade and other receivables

Trade receivables represent assets that are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest. Other receivables consist of vendor deposits and deferred costs associated with an ongoing project. At 31 December 2019, deferred costs represented £1,054,000 (2018: £281,000) and are principally related to the Red Rock project. Also included in the Trade and other receivables are prepaid costs of £447,000 (2018: £925,000) and VAT receivables in the amount of £99,000 (2018: £91,000). Trade receivables of £37,000 (2018: £6,000) are considered not material and, in general, are collected within 45 days of invoice date.

Loan receivable represents the outstanding loan and related interest associated with the loan to ENVIA at the end of 2018. The interest receivable associated with the ENVIA loan is calculated using the effective interest rate method. The Company's trade receivables and loan receivable are classified and measured at amortised cost.

The Company completed negotiations in April 2019 with one of the remaining partners of ENVIA and landfill gas supplier to sell some of the assets and terminate the loan, which has removed the Company's liens associated with ENVIA from the Company and release the site to the landlord so that they can pursue their own business from the site for a total of £3.4m. This settlement is considered a best outcome for the total loans made of £15.8m and a positive result from the activity with ENVIA, including all the operating and management data secured from the operation of this full-scale operational FT plant.

	2019 £'000	2018 £'000
Trade and other receivables – non-current	-	281
Trade and other receivables – current	1,637	930
Loan receivable	-	3,474
Total	1,637	4,685

Critical estimates and judgements

The Company applies the IFRS 9 simplified approach to measuring Expected Credit Loss ("ECL"), which uses a lifetime expected loss allowance for trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Company will adjust its analysis based on the historical credit loss. The Company's historical credit loss experience may also not be representative of customer's actual default in the future. As part of the ECL analysis, it was noted that trade receivables are considered to be both short term and low credit risk and as such any provision would be trivial.

At 31 December 2019, the Company performed an ECL analysis with respect to trade receivables and no additional impairment was recorded. As at the end of 31 December 2018, performed an updated ECL analysis, where the company recorded an additional impairment on a lifetime ECL basis of £10.1m taking the total provision to £12.3m. The outstanding balance on the loan at 31 December 2018 was therefore £3.4m. As detailed above, negotiations were concluded in respect of ENVIA with relevant parties in May 2019, where the remaining balance settled.

Impairment losses are presented in administrative expense in the Consolidated income statement.

12. Inventories

Inventories are stated at the lower of cost or net realisable value less provision for impairment. Cost is determined on a first-in, first-out basis and includes transport and handling costs. In the case of manufactured products, cost includes all direct expenditure including production overheads. Where necessary, provision is made for obsolete, slow-moving and defective inventories. Items purchased for use in externally funded research and development projects are expensed to that contract immediately. Items held for the Company's own development are also expensed when acquired. Items purchased for ongoing commercial sale are held in inventory and expensed when used or sold.

	2019 £'000	2018 £'000
Raw materials and consumables	1,782	1,043
Work in progress	1,550	–
Finished goods	–	395
Total	3,332	1,438

Raw material and consumables consist primarily of material that will be consumed in the manufacturing of reactors and catalyst. Work in progress consist of labour associated with the manufacturing of reactors. In 2019, the Company recognised £73,000 (2018: £194,000) of inventory in Cost of sales in the consolidated income statement.

In 2019, the Company recognised a provision of £408,000 (2018: £nil) related to slow moving inventory in the Administrative expenses line of the consolidated income statement.

In 2019, the Company recognised a provision of £38,000 related to the manufacturing of two cores which didn't meet the Company specifications. In 2019, the Company reversed a 2017 impairment of a reactor in inventory for the amount of £352,000. This reactor was delivered to a customer in 2019 and is currently presented as inventory on the 2019 Consolidated balance sheet until the performance obligations, defined under IFRS 15, is met. This reactor has been reclassed to deferred costs as it relates to the Red Rock project. The reversal of the impairment in inventories was partially offset by the impairment of test reactors in the amount of £123,000. There were no impairments recorded with respect to inventory in 2018.

13. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

	2019 £'000	2018 £'000
Cash and cash equivalents	4,797	6,964
Total	4,797	6,964

Cash and cash equivalents are denominated in UK sterling, Euros and US dollars as follows.

	2019 £'000	2018 £'000
Cash and cash equivalents		
UK sterling denominated	3,783	5,130
US dollar denominated	927	1,733
Euro denominated	87	101
Total	4,797	6,964

14. Trade and other payables: current

	2019 £'000	2018 £'000
Trade payables	333	853
Other taxation and social security	45	395
Accruals	953	1,770
Total	1,331	3,018

Due to their short maturity, the fair value of trade and other payables is not considered to be materially different to their carrying values, based on discounted cash flows.

All trade payables are due in 60 days or less (2018: 60 days or less).

15. Deferred revenue

Deferred revenue consists of contract liabilities as a result of instances in which the Company's receives payments prior to the satisfaction of the performance obligation, as defined in IFRS 15. Deferred revenue is allocated to the respective performance obligations based on relative transaction prices and is recognised as the performance obligation is satisfied. Determining the performance obligations associated with the Company contracts can require significant judgment.

The Company recognised the following liabilities associated with contracts with customers:

£'000	**Catalyst**	**Reactor**	**License**	**Total**

At 1 January 2018	1,238	-	-	1,238
Contract liabilities incurred	1,334	1,949	1,199	4,482
Revenue recognised in the period	(507)	-	-	(507)
At 31 December 2018	2,065	1,949	1,199	5,213
Contract liabilities incurred	499	853	–	1,352
Released deferred revenue	(533)	–	–	(533)
At 31 December 2019	2,031	2,802	1,199	6,032

In 2019 the Company released deferred revenue in the amount of £533,000 in final settlement of the ENVIA loan receivable balance representing a recovery on the impairment recorded in 2018, see note 2.

Management expects that 95% of the deferred revenue as of 31 December 2019 could be recognised as revenue in 2021 if the related performance obligations are met.

16. Post financial position events
The following events took place after 31 December 2019

Fundraise of £21 million completed in July 2020
On 14th July 2020, the Company announced that it had completed the fund raising of £21 million (before expenses) through a Placing, Retail Offer and Open Offer. This was confirmed through a General Meeting held on 14th July 2020 and has been announced to the market. Net of expenses the Company has received £19.65m, which will ensure that it has sufficient funding to continue as a going concern for at least 12 months. The Company expects that it will receive income from other sources including customers through licensing and sales of engineering services which will extend this timeline.

Covid-19 coronavirus pandemic
During March 2020 both the UK and the US Governments implemented a social distancing policy, which meant that we had to close operations at our offices and sites in Oxford, Houston and Plain City and put in place a work from home policy. This has meant that it is difficult to have as many productive face to face meetings as we might have had otherwise but nonetheless progress has been made on all aspects of the business. Our manufacturing of the reactors for Red Rock Biofuels (as at 30 March) is still being undertaken and we anticipate being able to complete the delivery of all four reactors and catalysts in the first half of 2020. The ongoing engineering work on the Altalto Immingham, UK biorefinery plant is continuing and to that end in February 2020 we announced the appointment of Worley as engineering partner for the development of all projects in the Velocys portfolio, including the Immingham, UK biorefinery plant.

The Company's judgement that the extent of Government interventions in response to the Covid-19 pandemic only became apparent after the balance sheet date and represent a non-adjusting post balance sheet event. Given these events are of such significance, further explanation of the impact of Covid-19 is presented in the Strategic report section of the financial statement.

US SBA loan received
In April 2020, the Company announced the approval of a $709,000 (£567,200) loan from the Pay-check Protection Program awarded by the Small Business Administration ("SBA"), a US Federal Agency. The SBA program is part of the Federal stimulus package known as the CARES (Coronavirus Aid, Relief and Economic Security) Act to offer help to small businesses in the USA during the Covid-19 crisis. This unsecured loan has been awarded to support Velocys' US payroll costs in the short-term. It is an unsecured loan with a 2-year maturity and 0.98% interest. No interest or principal payments are due in the first six months. The loan is however eligible for "forgiveness", becoming non-repayable upon application by Velocys after 60 days from receipt if used for retaining US employees and maintaining US payroll costs of at least this amount in the period until the end of June 2020. Velocys is confident that it will meet the criteria for this "forgiveness".

Altalto Immingham Joint Development Agreement extension
In May 2020, the Company has secured a further £1m funding for the Altalto waste-to-fuels project from British Airways PLC and Shell International Petroleum Company Limited ("Shell"), payable before the end of June 2020. The proposed Altalto Immingham plant is being executed under a Joint Development Agreement ("JDA") between British Airways, Shell, and Velocys. This JDA has now been extended as planned in order to support the continued technical and commercial development of the project. British Airways and Shell have each now been granted an option to take a one-third share in the equity capital of Altalto Limited (a subsidiary of the Company) at a strike price of £1, as a pre-cursor to a full Shareholders' Agreement for Altalto Limited in due course.

Altalto Immingham plant granted planning permission from North East Lincolnshire Council
In May 2020, North East Lincolnshire Council granted planning permission for the UK's first commercial waste-to-jet fuel plant. This means that the project can proceed through the next stages of development with the certainty of this completed. Subject to additional funding and financial close, construction is targeted to begin in 2022 and the facility could be producing fuel from 2025.

Further F4C grant from the Department of Transport
In June 2020, the Company announced that it has secured a further £0.5 million of grant funding for the Altalto waste-to-fuels project from the Department for Transport (DfT), under the Future Fuels for Flight and Freight Competition (F4C). Velocys was awarded a grant of £0.4m in Stage One of the F4C in 2018, and was shortlisted to receive an award in Stage Two. The DfT has now made £0.5m of the Stage Two grant available to Velocys. Velocys is one of the two remaining companies expected to receive the balance of funding in Stage Two, subject to completion of future project milestones.

Delivery of Reactors and Catalyst to Red Rock Biofuels
In July 2020 the Company announced that it has completed the manufacturing and supply of the four reactors and associated catalyst for its customer Red Rock Biofuels. The Company invoiced £0.9 million during 2019 which is all treated as deferred revenue in accordance with IFRS 15 until the performance test is completed during commissioning of the plant in 2021.

Legal disputes
The Company may from time to time be involved in disputes which may give rise to claims. The Directors have considered any current matters pending against the Company, including a claim made by the bankruptcy trustee of Ventech Engineers International LLC (a former commercial partner of the Company). Based on the information available and the facts and circumstances of any claims, the Board considers that the outcome of these will be resolved with no material impact on the Company's financial position or results.

17. Statutory information

Copies of the 2019 Annual report and accounts will be posted or emailed to shareholders at least 21 days before the Company's Annual General Meeting and may be obtained, free of charge for one month from the date of posting, from the registered office of Velocys plc, Magdalen Centre Roboert Robinson Avenues, The Oxford Science Park Oxford OX4 4GA, UK, as well as from the Company's website www.velocys.com.

18. Annual General Meeting

The Annual General Meeting (AGM) is to be held on 2 September 2020. Notice of the AGM will be dispatched to shareholders with the Company's Annual report and accounts.