VELOCYS

**News release**

## Velocys plc

("Velocys" or "the Company")

**17 May 2022**

# Final audited results for the year ended 31 December 2021
# Acceleration of Commercialisation

Velocys, the sustainable fuels technology company, is pleased to announce its final audited results for the year ended 31 December 2021, which shows the Company making good progress in the technology delivery and commercialisation phase of its growth strategy.

**2021 Financial Highlights**

- Revenue increased to £8.3 million (2020: £0.2 million).
- Administrative expenses of £13.3 million (2020: £9.2 million).
- Operating loss of £9.0 million (2020: £8.8m).
- Net assets increased to £29.7 million as at 31 December 2021 (2020: £13.1 million).
- £26.2 million (before expenses) successfully raised by a Placing and Open Offer in December 2021.
- Net cash at year end of £25.5 million (2020: £13.1 million).
- No borrowings at the year-end (2020: £0.5 million).

**Business Highlights including post period end activities**

***Strong commercial progress made***

- Commercial offtake agreement with Southwest Airlines and a memorandum of understanding ("MOU") with IAG for all the Sustainable Aviation Fuel ("SAF") and associated environmental credits for the Bayou Fuels project.
- Collaboration with TOYO, with Velocys Fischer Tropsch technology being selected for an e-fuels project commissioned by the Japanese government.
- TOYO commenced advanced engineering for commercial scale biorefinery for conversion of forestry residue into SAF.
- Exercised option agreement for Altalto to acquire Immingham site owner for £9.75 million with £2.5 million in cash and £7.25 million owing as deferred consideration at year-end ahead of onward sale to Foresight Group LLP.
- Velocys and British Airways were awarded a grant of up to £2.4 million from the UK Government's Green Fuels Green Skies ("GFGS") grant scheme.
- Appointed Koch Project Solutions to provide pre-FEED/FEED support with the potential to be awarded an EPC contract for the Bayou Fuels project.
- Growing pipeline of customer opportunities leading to additional technology licensing opportunities across three continents.

***Technology skillset strengthened***

- Dr Dawid Duvenhage joined as VP, Catalysis - bringing a wealth of knowledge and experience in catalysis and the Fischer Tropsch process.

***Post period end***

- In March 2022 onward sale of Altalto project site owner to Foresight Group LLP for £9.75 million settling the deferred consideration and repaying Velocys the £2.5 million paid in December 2021 alongside securing a three-year option to repurchase the site owning company and a right of first refusal for Foresight to invest up to £100 million into the Altalto project.
- Altalto Joint Development agreement and Altalto option agreement with British Airways plc extended to 31 March 2023.
- In March 2022 a 15-year lease for a modern sustainable technical centre in Ohio was signed for a new building purpose built to suit Velocys' technical needs in catalysis services, microchannel reactor core assembly and technology licensing.

**Henrik Wareborn, CEO of Velocys, said:**

"Velocys offers a decarbonisation solution to the aviation industry and is now firmly in the technology delivery and commercialisation phase of our growth strategy. We have a growing pipeline of new customer opportunities spanning multiple continents, which have developed in response to client specific net zero targets in countries that are ahead of the game on mandates and policy incentives.

"Our commercially demonstrated patented technology enables an alternative to fossil jet fuel with an ultra-low carbon intensity. In addition, our production pathway generates fuels with much lower sulphur oxide and particulate matter emissions. Synthetic drop-in fuel is the here and now solution, which requires no modification to aircraft or airport infrastructure.

"The synthetic fuel enabled by our technology will greatly benefit our customers, industry and society."

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.

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**Notes to Editors**

Velocys is an international sustainable fuels technology company, traded on the AIM market of the London Stock Exchange ("AIM"), providing customers with a technology solution to enable the production of negative Carbon Intensity synthetic, drop-in fuels from a variety of waste materials. Synthetic fuel is the only commercially available, permanent alternative to fossil aviation fuels. The Velocys technology is IP-protected in all major jurisdictions.

Two reference projects (Bayou Fuels, US, and Altalto, UK) are designed to accelerate the adoption and standardise the Velocys proprietary Fischer Tropsch ("FT") technology with an integrated end to end solution, including renewable power and carbon sequestration.

Velocys is enabling commercial scale synthetic fuel production in response to the clean energy transition, with significant additional positive air quality impacts.

www.velocys.com

## Chairman's statement

The year saw a strong performance from Velocys towards its financial, commercial, and technical objectives.

We adapted in 2020 to working remotely and effectively during the pandemic without losing momentum and we built on this learning in 2021 to ensure seamless customer delivery during the year. The Company achieved another year with zero lost time incidents across all three sites, a health and safety record of real note.

The past twelve months have seen greatly increased engagement and deeper commitments from leading global organisations to support policy objectives aimed at reducing greenhouse gas emissions and driving an increase in the use of renewable energy.

The 2021 United Nations Climate Change Conference ("COP26") saw further commitment to support sustainable aviation with the launch of the International Aviation Climate Ambition Coalition ("IACAC") where 26 member states, including the UK, pledged to work together to support the adoption of global goals for international aviation CO2 emissions by the International Civil Aviation Organization and to support specific measures to reduce aviation emissions including sustainable aviation fuels.

To make meaningful progress, there must be increased collaboration and innovation from all sides. Industry players with proven technologies need to work alongside policy makers at a governmental level and with other key stakeholders to drive the necessary change to address aviation emissions by including these emissions in their national climate targets – something the UK, who led the declaration, committed to itself earlier this year.

Velocys' versatile and innovative technology adds significant IP and optimisation to the Fischer Tropsch ("FT") process and is ideally placed to play a key role in supporting the international decarbonisation agenda.

**Board**

After nine years of service to the Company, Sandy Shaw stepped down from the Board at the 2021 AGM. Following an extensive search, we have strengthened the Board with the appointment of two new Non-Executive Directors: Ann Markey and Tom Quigley. Both Ann and Tom bring significant financial and operational experience to the Board at a time when the Company is looking to progress towards securing funding for the next stage of development for its UK and US reference projects and to build our technology delivery capability to satisfy the ever-growing global demand.

We have taken the opportunity to strengthen the Board's oversight of the Company's risk management and sustainability activities by establishing a Risk and Sustainability Committee, chaired by Darran Messem. The Audit Committee is now chaired by Ann Markey, and the Remuneration Committee is chaired by Tom Quigley.

In February 2022, Andrew Morris, CFO, advised the Board of his intention to leave Velocys in Q2 2022 in order to pursue other career opportunities. Andrew has played a key role in strengthening and consolidating the finance function of the Company and the Board is grateful for his service and his commitment. The recruitment process of our next CFO is well underway.

**Leadership**
David Bate was appointed General Counsel, Vice President Legal and Compliance in March 2021. David's most recent position was at Schlumberger where he was responsible for all legal support to the group's upstream asset portfolio covering M&A, business development, risk and project management, development financing and other regulatory matters.

Andy Bensley joined Velocys as the Global Head of Business Development and Technology Delivery in February 2022. He has 35 years of international experience in senior corporate, functional leadership and project delivery roles in both major international oil companies and EPC contractor organisations. In this newly created role, Andy will focus on the acceleration of the commercialisation of the Velocys technology in order to cultivate our global client pipeline and enhance our technology delivery capability.

Heinz Robota, VP Technology, is retiring from his role after 10 years at Velocys, having led the catalysis efforts from R&D through to commercial scale demonstration of Velocys' super active FT catalyst. Heinz will be succeeded by Dawid Duvenhage who has over 30 years' experience in catalyst development, scale-up and commercialisation. Heinz will continue to support Velocys as a member of our Senior Scientific Advisory Board.

**Outlook**
The recent successful placing and open offer will enable us to expand our reactor core assembly capability, ensuring that we will be able to meet strong customer demand for our technology, driven by SAF mandates. We also look forward to accelerating our reference projects in 2022.

A key focus will be to augment our commercial and business development function to serve a wide range of customers with an integrated, standardised service offering and a capital light licensing model deployed for biorefineries with integrated $CO_2$ sequestration as well as in the new e-fuels sector.

Through our established strategic alliances with our technology and engineering partners, we will be able to offer a fully integrated end to end solution for converting sustainable non-fossil feedstocks into SAF.

I would like to thank Henrik Wareborn, his leadership team and everyone at Velocys for their hard work and commitment in 2021. Their energy, enthusiasm and professionalism has enabled our strategic success during this important year for Velocys.

## CEO's Report

As a sustainable fuels technology company, Velocys has a solution to reduce greenhouse gas emissions in the aviation sector.

Our IP-protected technology enables the production of a synthetic fuel with the same chemical composition of fossil jet fuel and, as a drop-in fuel, utilises sustainable waste feedstocks, which have no alternative use such as forestry residue and municipal solid waste. It is a negative carbon intensity fuel with carbon sequestration and not only has the potential to support national fuel security initiatives but also delivers environmental improvements as a cleaner burning fuel.

Global opportunities for the Velocys technology are growing rapidly and with an international roster of blue chip customers, partners, and industry stakeholders, Velocys is well positioned with its integrated, standardised service offering.

Our intention is to take advantage of this opportunity by focusing on markets with the most advantageous regulatory tailwinds, expanding our business development function and offering our commercially demonstrated, IP-protected technology to a broad global customer base.

This year saw the achievement of a number of important objectives in our growth strategy, including multi-year offtake agreements with IAG (whose constituent airlines include British Airways, Aer Lingus, and Iberia) and Southwest Airlines; the selection of our technology for an e-fuels project commissioned by the Ministry of the Environment in Japan; and a successful £26.2m (before expenses) fundraise to enable us to accelerate our commercialisation strategy.

**Commercial and operational achievements**
A significant validation of the Velocys technology occurred in the commercial flight by Japan Airlines in June 2021. The SAF used on the plane was produced at the NEDO1 demonstration in Nagoya, Japan, and synthesised in a Velocys FT reactor from gasified woodchips. This flight was the first commercial flight in the world to use SAF derived from woodchips and synthesised into aviation fuel. SAF's advantage is its availability for immediate use and its ability to be blended in existing airport fuelling systems without any segregation or modification of the jet turbines.

Our collaboration with TOYO was further strengthened with Velocys' FT technology being selected for an e-fuels project by a consortium of six leading Japanese companies. This validates an additional application of Velocys' technology for the "power to liquids" pathway whereby hydrogen and carbon gases are generated from "co-electrolysis" instead of gasification to be synthesised to liquid hydrocarbon fuels using Velocys' Fischer Tropsch Synthesis ("FTS").

TOYO also started the advanced engineering and design phase of a commercial scale biofuel refinery in Japan for conversion of forestry residue to SAF, which will be enabled by Velocys' FT technology.

Progress was made on the Bayou Fuels reference project in Mississippi, US, which has the intended nameplate capacity to produce 132m litres of SAF per year from woody biomass feedstock. In November 2021, Velocys announced 15- and 10-year offtake arrangements for all the SAF and the associated environmental credits expected to be generated by the Bayou Fuels Project with Southwest Airlines and IAG, respectively. These agreements represent a multi-billion-dollar balance sheet commitment for SAF by these two major airlines. They also underpin the financing of the construction capital for the Bayou Fuels biorefinery.

Work also continued on the Altalto project located in North East Lincolnshire, UK, with the intended nameplate capacity to produce 80m litres of SAF per year from municipal solid waste. As previously reported, the site has full planning permission, and its main commercial sponsor is British Airways. In December 2021, we exercised an option agreement to acquire Rula Developments (Immingham) Ltd, which owns the Altalto site. In line with our planned strategy to secure long term access to the Altalto site without significant capital outlay at this time, our announcement in March 2022 noted that Altalto sold Rula Developments to funds managed by Foresight Group LLP.

Velocys holds a three year repurchase option and Foresight has been granted first right of refusal for up to a £100m investment in the Altalto project. This is also in line with the rights of British Airways and other future investors. Further information is provided in the Financial Review. During the year, Velocys and British Airways were awarded a grant of up to £2.4 million from the UK Government's Green Fuels, Green Skies scheme, to accelerate the technical development of Altalto.

As the year closed, Velocys concluded an oversubscribed fundraise of £26.2 million (before expenses), with strong support from both existing and new shareholders. This capital raise will help us to accelerate our reactor and catalyst manufacturing capability during 2022 to unlock a steady growth of customer revenues and positive cash flow for Velocys.

I am very appreciative of the support shown by our current and new shareholders. Notably, we welcomed a number of high-profile UK and US institutional investors onto our register, some of which are now new major shareholders. I am grateful for the seamless and exceptional preparation and execution of our Placing by our joint brokers, Panmure Gordon and Shore Capital, at the end of a successful year for Velocys.

I would like to thank Andrew Morris and Heinz Robota, both of whom announced that they are stepping down, for all their dedication to Velocys. In addition, I am pleased to confirm the strengthening of our Management team during 2021 by the appointments of David Bate and Dr Dawid Duvenhage and, more recently, Andy Bensley as we continue our technical and commercial progress.

Above all, none of these accomplishments would have been possible without the dedication and expertise provided by the talented team at Velocys. I would like to thank everyone for their professionalism and commitment.

**Sustainability**
Velocys offers a sustainable technology solution to help meet the decarbonisation goals of our customers and partners as well as providing environmental benefits. All our employees play an important role in how we deliver

sustainability both internally and externally and are fully committed to this ethos and practice. Positive steps were taken in 2021 with the creation of a Risk and Sustainability Committee and we established a cross functional team to develop a sustainability policy.

**Summary**
Velocys is now well into our transition from R&D to technology delivery and commercialisation. Andy Bensley will help to lead this effort which includes responsibility to prepare our reference project in Mississippi for Front End Engineering and Design ("FEED") and into execution as well as deliver the Altalto project under the Joint Development Agreement ("JDA") with British Airways.

We have an exciting pipeline of customer opportunities which is increasing in response to mandates and policy incentives being enacted by governments around the world in pursuit of decarbonisation. We are seeing high levels of interest from well-established and well-funded customers with access to suitable sites and abundant sustainable feedstocks. The ability of our technology to use a range of feedstocks, provides opportunities for customers to utilise local sustainable resources, decreasing their reliance on imported crude oil and natural gas.

I look forward with confidence to another busy and successful year.

## Financial Review

With gross profits of £3.4m in 2021 and the successful oversubscribed fund raise of £26.2m (before expenses) the Company has the strength to support delivery of its reference projects and supply to its customers.

**Revenues**
The Company[1] recognised revenue of £8.3m (2020: £0.2m). The 2021 revenue primarily comprised sales of reactors and catalyst, and licensing fees earned from our first major commercial client contract which commenced in 2017. The Company satisfied the performance obligations within the contract in 2021 following expiry of all contractual obligations and therefore determined that it was appropriate to recognise the revenue and the associated cost of goods. The Company also provided engineering services in Japan and recorded £0.2m in respect of this work. Overall, the gross profit for the year ended 31 December 2021 was £3.4m (2020: £0.1m).

Note

1. Velocys plc is managed as a single operation and referred to as "the Company" or "Velocys" throughout the Strategic report. The "Company" or "Velocys" represents the consolidated results and Velocys plc refers to the parent company only.

**Expenses and income**
Administrative expenses increased by 44% to £13.3m (2020: £9.2m). In 2021, the Company was able to release £0.5m (2020: £3.0m) of the Altalto credit (being the advanced funding liability received from British Airways) against its operating costs as work was completed on the co-development project. Therefore, on a comparable basis, the Company's operating expenses have increased by approximately 13%.

Other income totalling £1.0m consisted of £0.5m from the forgiveness of a loan awarded under a US Federal Government stimulus package to support businesses during the COVID-19 crisis, £0.3m from the Green Fuels Green Skies ("GFGS") grant awarded by the UK Department for Transport in 2021 and £0.2m from the second tranche of the Future Fuels for Flight and Freight ("F4C") grant awarded by the UK Department for Transport. In 2020 other income of £0.4m mainly consisted of £0.3m from the first tranche of the F4C grant.

**Operating losses**
Operating losses of £9.0m were in line with the previous year (2020: £8.8m).

**Net assets and cash**
The net assets of the Company were £29.7m, which is an increase of £16.6m compared to 2020. This increase was principally the result of an increase in cash of £12.5m, and non-current assets (less the related outstanding deferred consideration) of £2.5m. There was also a reduction in deferred revenue and the related costs which increased net assets by £2.9m. The net cash inflow to the Company in 2021 was £12.8m (2020: £9.2m) principally being cash generated from financing activities of £24.2m, attributed to £24.6m received net of

expenses from the fund raise completed in December, less £3.2m used in investing activities and £8.1m used in operating activities. The Company continues to carefully manage its underlying cost base and spends prudently on strategy implementation. The Company incurs a proportion 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.

**Acquisition of Rula Developments (Immingham) Ltd**
In December 2021, Altalto Immingham Ltd, a 100% subsidiary of the Company, exercised an option to purchase Rula Developments (Immingham) Ltd. ("RDIL"), a property development company, with an initial part-payment of £2.5m. RDIL owns the site of the proposed Altalto project, near Immingham in North East Lincolnshire, which is being jointly developed with British Airways and Velocys. The total consideration to acquire RDIL comprised a cash payment of £2.5m in December 2021 and a further deferred consideration amount of £7.25m, which has been recorded in current liabilities. The deferred consideration was settled in March 2022 when RDIL was sold to Foresight Group LLC.

The value of the net assets acquired was £9.8m. Further details are provided in note 2.

**Impairment assessment**
There has been no change in the Board's assessment of the long-term potential of the Company's in-process technology assets, and therefore there has been no impairment or reversal of previous impairments of the Company's assets in 2021.

The recoverable value is determined by comparing the higher of the value in use and the fair value less costs of disposal. Previously, given the early stage of the Company's commercialisation plans, the share price of the parent Company was deemed the most accurate indicator of value. The market capitalisation value at 31 December 2021 was £103.1m compared to £108.0m at the previous year end. The Company's net assets were £29.7m (2020: £13.1m).

Alongside the share price of the parent Company, the Board also considers changes in a number of other indicators including:

- The present value of estimated future net cash flows, using the Company's internal forecasts;
- Global demand forecasts for sustainable aviation fuel;
- Government policy support and commitments for carbon reduction;
- Potential competing technologies; and
- New commercial arrangements signed during the year.

In November 2021, the Company entered into its first offtake agreement, with Southwest Airlines ("Southwest"), for two thirds of the sustainable aviation fuel to be produced at the planned Bayou Fuels biorefinery project. A memorandum of understanding with International Consolidated Airlines Group S.A. ("IAG") was also concluded. Whilst these two long-dated fuel offtake arrangements provide a high level of confidence of revenue for the Bayou Fuels project, which is an important step towards enabling capital financing for construction, until new commercial orders for the Company's reactors and catalyst are in place, this indicator alone is not considered sufficient to support a reversal of previous impairments.

The parent company, Velocys plc, has both equity and debt investments in its subsidiaries, which are compared to the recoverable amount. The impairment assessment of equity investments totalling £9.2m (compared to the parent company's market capitalisation value of £103.1m) showed that no impairment indicators were identified and, as a result, no impairment was recognised (2020: £nil).

The parent company also assessed total loans of £22.6m due from its subsidiaries and as a result recorded a provision for expected credit losses ("ECL") of £2.0m (2020: £1.8m). The total ECL provision of £3.9m is eliminated on consolidation and therefore is not seen in the consolidated financial statements.

**Funding**
In December 2021 Velocys raised a total of £26.2m (before expenses) via a Placing and Open Offer. With this successful fundraise, the financial statements have been prepared on the going concern basis.

The Company's cash forecast includes the use of the net proceeds of the capital raising to:

- Invest in manufacturing capability to enable output of at least 12 reactors per year and in addition the build-up of reactor parts inventory to expedite commissioning of the manufacturing equipment;
- Complete work on the Bayou Fuels and Altalto reference projects to the point of securing external investment into the detailed engineering stage;
- Support process guarantees and equipment warranties required by clients;
- Strengthen the Company's business development function; and
- Provide the working capital to support the Company's projected running costs.

**Going Concern**

The directors are confident that the funding received in December 2021 is sufficient to enable the Company to support its activities for not less than the 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.

# Consolidated income statement

for the year ended 31 December 2021

| | Note | **2021** £'000 | 2020 £'000 |
|---|---|---|---|
| **Revenue** | 3 | 8,283 | 178 |
| Cost of sales | | (4,881) | (101) |
| **Gross profit** | | 3,402 | 77 |
| Administrative expenses | 7 | (13,331) | (9,238) |
| Other income | 6 | 956 | 400 |
| **Operating loss** | | (8,973) | (8,761) |
| Finance income | 4 | 34 | 6 |
| Finance costs | 5 | (551) | (850) |
| **Net finance costs** | | (517) | (844) |
| **Loss before income tax** | | (9,490) | (9,605) |
| Income tax credit | | 1,049 | 810 |
| **Loss for the financial year attributable to the owners of Velocys plc** | | (8,441) | (8,795) |
| **Loss per share attributable to the owners of Velocys plc** | | | |
| Basic and diluted loss per share (pence) | 9 | (0.78) | (1.05) |

# Consolidated statement of comprehensive income

for the year ended 31 December 2021

| | **2021** £'000 | 2020 £'000 |
|---|---|---|
| **Loss for the year** | (8,441) | (8,795) |
| Items that may be reclassified to the income statement in subsequent periods: | | |
| Foreign currency translation differences | 113 | (251) |
| **Total comprehensive expense for the year attributable to the owners of Velocys plc** | (8,328) | (9,046) |

# Consolidated statement of financial position
as at 31 December 2021

| | Note | **2021 £'000** | 2020 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 10 | 1,086 | 740 |
| Property, plant and equipment | 11 | 11,006 | 1,479 |
| Right-of-use asset | 12 | 500 | 653 |
| | | 12,592 | 2,872 |
| **Current assets** | | | |
| Inventories | 13 | 767 | 970 |
| Trade and other receivables | 14 | 1,274 | 6,182 |
| Current income tax asset | | 1,100 | 810 |
| Cash and cash equivalents | 15 | 25,506 | 13,051 |
| | | 28,647 | 21,013 |
| **Total assets** | | 41,239 | 23,885 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 16 | (2,969) | (932) |
| Lease liability | 12 | (397) | (470) |
| Deferred consideration | | (7,250) | – |
| Borrowings | | – | (152) |
| Other liabilities | | (431) | (474) |
| Deferred revenue | 17 | (326) | (7,774) |
| | | (11,373) | (9,802) |
| **Non-current liabilities** | | | |
| Lease lability | 12 | (189) | (270) |
| Borrowings | | – | (371) |
| Deferred revenue | 17 | – | (382) |
| | | (189) | (1,023) |
| **Total liabilities** | | (11,562) | (10,825) |
| **Net assets** | | 29,677 | 13,060 |
| **Capital and reserves attributable to owners of Velocys plc** | | | |
| Called up share capital | | 13,936 | 10,642 |
| Share premium account | | 221,059 | 199,701 |
| Merger reserve | | 369 | 369 |
| Share-based payments reserve | | 2,638 | 16,345 |
| Foreign exchange reserve | | 3,151 | 3,038 |
| Accumulated losses | | (211,476) | (217,035) |
| **Total equity** | | 29,677 | 13,060 |

# Consolidated statement of changes in equity
for the year ended 31 December 2021

| | Called up share capital £'000 | Share premium account £'000 | Merger reserve £'000 | Share based payment reserve £'000 | Foreign exchange reserve £'000 | Accumulated losses £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2020** | 6,438 | 184,256 | 369 | 16,225 | 3,289 | (208,240) | 2,337 |
| Loss for the year | – | – | – | – | – | (8,795) | (8,795) |
| **Other comprehensive expense** | | | | | | | |
| Foreign currency translation differences | – | – | – | – | (251) | – | (251) |
| **Total comprehensive expense** | – | – | – | – | (251) | (8,795) | (9,046) |
| **Transactions with owners** | | | | | | | |
| Share-based payments – value of employee services | – | – | – | 120 | – | – | 120 |
| Net proceeds from share issues | 4,200 | 15,437 | – | – | – | – | 19,637 |
| Proceeds from options exercised | 4 | 8 | – | – | – | – | 12 |
| **Total transactions with owners** | 4,204 | 15,445 | – | 120 | – | – | 19,769 |
| **Balance at 31 December 2020** | 10,642 | 199,701 | 369 | 16,345 | 3,038 | (217,035) | 13,060 |
| **Balance at 1 January 2021** | 10,642 | 199,701 | 369 | 16,345 | 3,038 | (217,035) | 13,060 |
| Loss for the year | – | – | – | – | – | (8,441) | (8,441) |
| **Other comprehensive expense** | | | | | | | |
| Foreign currency translation differences | – | – | – | – | 113 | – | 113 |
| **Total comprehensive expense** | – | – | – | – | 113 | (8,441) | (8,328) |
| **Transactions with owners** | | | | | | | |
| Share-based payments – value of employee services | – | – | – | 293 | – | – | 293 |
| Transfer from share-based payments reserve | – | – | – | (14,000) | – | 14,000 | – |
| Net proceeds from share issues | 3,278 | 21,326 | – | – | – | – | 24,604 |
| Proceeds from options exercised | 16 | 32 | – | – | – | – | 48 |
| **Total transactions with owners** | 3,294 | 21,358 | – | (13,707) | – | 14,000 | 24,945 |
| **Balance at 31 December 2021** | 13,936 | 221,059 | 369 | 2,638 | 3,151 | (211,476) | 29,677 |

# Consolidated statement of cash flows
for the year ended 31 December 2021

| | Note | **2021 £'000** | 2020 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Operating loss | | (8,973) | (8,761) |
| Depreciation and amortisation | | 1,084 | 1,099 |
| Loss on disposal of intangible assets | | - | 72 |
| Impairment of inventory | | 118 | 270 |
| Share-based payments | | 293 | 120 |
| Changes in working capital (excluding the effects of exchange differences on consolidation) | | | |
| Trade and other receivables | | 4,908 | (4,545) |
| Trade and other payables | | 2,037 | (399) |
| Other liabilities | | (566) | (2,330) |
| Deferred revenue | | (7,830) | 2,124 |
| Inventory | | 85 | 2,092 |
| Cash consumed by operations | | (8,844 | (10,258) |
| Tax credits received | | 759 | 648 |

| | | | |
|---|---|---|---|
| **Net cash used in operating activities** | | (8,085) | (9,610) |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (2,730) | (342) |
| Purchase of intangible assets | | (518) | (513) |
| Interest received | | 34 | 6 |
| **Net cash used in investing activities** | | (3,214) | (849) |
| **Cash flows from financing activities** | | | |
| Proceeds from issues of shares | | 26,222 | 21,000 |
| Costs of issuing shares | | (1,618) | (1,363) |
| Proceeds from issue of share options | | 48 | 12 |
| Principal elements of lease payments | | (485) | (457) |
| Interest paid | | (116) | (142) |
| Proceeds from borrowings | | – | 567 |
| **Net cash generated from financing activities** | | 24,051 | 19,617 |
| **Net increase in cash and cash equivalents** | | 12,752 | 9,158 |
| Cash and cash equivalents at beginning of year | 15 | 13,051 | 4,797 |
| Exchange movements on cash and cash equivalents | | (297) | (904) |
| **Cash and cash equivalents at end of year** | 15 | 25,506 | 13,051 |

# 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 financial information contained in this document does not constitute Group statutory financial statements as defined in Sections 435 of the Companies Act 2006. It is based on, and is consistent with, that in the Group's statutory consolidated financial statements for the year ended 31 December 2021.

The Group's auditors, PricewaterhouseCoopers LLP, have given an unqualified audit opinion on the consolidated financial statements for the year ended 31 December 2021. The consolidated financial statements will be filed with the Registrar of Companies subject to their approvals by the Company's shareholders on 21 June 2022 at the Company's Annual General Meeting.

The consolidated financial statements have been prepared in accordance with the requirements of the Companies Act 2006..

The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities at fair value, where relevant. No such adjustments to financial assets or liabilities were required in 2021 or 2020.

The preparation of financial statements to conform to IFRS as adopted by the UK 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 set out in the relevant note below.

**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 not less than twelve months from the date of approval of the financial statements.

The nature of the Company's strategy means that the precise timing of milestones and funds generated during the early years of development projects are difficult to predict. 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. These forecasts, including analysis of a severe but plausible downside scenario, showed that the Company and Velocys plc have sufficient funding for this period.

During December 2021 the Company raised £26.2 million (before expenses) by way of a VCT Placing, General Placing and Open Offer. The directors do not anticipate that any further funding to the Company will come from further placing of the parent company shares within the twelve months from the date of signing the financial statements. However additional funding may come from one, or a combination of, the following sources, with agreements actively being sought from third parties:

- Selling additional technology licences;
- Additional strategic investment into either or both of Bayou Fuels or Altalto projects;
- UK or USA Government loans or grants

The directors have therefore prepared the financial statements on a going concern basis.

**Changes in accounting policies**

***New standards, interpretations and amendments adopted from 1 January 2021***

The Company has assessed the new standards, interpretations and amendments issued that are effective from 1 January 2021 and does not consider these to be relevant to the financial statements or to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

***New standards, interpretations and amendments not yet effective***

There are a number of standards, amendments to standards, and interpretations which have been issued by the International Accounting Standards Board ("IASB") that are effective in future accounting periods that the Company has decided not to adopt early.

The following amendments are effective for the accounting period beginning 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS1, IFRS9, IFRS16 and IAS 41) and
- References to Conceptual Framework (Amendments to IFRS 3).

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

The Company is currently assessing the impact of these new accounting standards and amendments. The Company does not believe that these amendments will have a material impact.

**Significant accounting policies**

**Consolidation – subsidiaries**

The acquisition method of accounting is used to account for the acquisition of subsidiaries in the Company. The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred. Directly attributable costs are expensed to the income statement. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the acquiring company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement. Acquired subsidiaries are consolidated from the date on which control of the subsidiary is transferred to the Company.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

**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 pounds sterling (£). It should be noted that the functional currency for Velocys plc is pounds sterling 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 £.

***Transactions and balances***
Foreign currency transactions are booked in the functional currency of the entity at the exchange rates ruling 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 included 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:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates; and
- (iii) 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***
Other significant accounting policies are included in the note to which they apply.

**2. Acquisition of Rula Developments (Immingham) Ltd**

On 22 December 2021, the Company acquired 100% of the share capital of Rula Developments (Immingham) Ltd ("RDIL"). RDIL is a UK based property development company which owns land in Immingham, UK on which Velocys plans to develop the Altalto waste to sustainable fuels biorefinery. The consideration comprised a £2.5m cash payment and deferred consideration of £7.25m which was paid by 31 March 2022.

As at 31 December 2021, the Company was actively seeking to sell the entire share capital of RDIL to a third party in order to fund the deferred consideration. Following the reporting period end, in March 2022, RDIL was sold to a subsidiary of Foresight Group LLC, with a call option to repurchase RDIL within three years. For further details, please refer to Note 18 (Post financial position events). The RDIL assets have been presented in the consolidated financial statements as non-current assets because the existence of the call option means control of the asset does not pass to the purchaser of the RDIL shares and will therefore remain on the consolidated balance sheet during the three year option period. Below are the critical estimates and judgements made in determining the appropriate accounting treatment of the acquisition.

***Critical accounting estimates and judgements***
In assessing whether the acquisition of RDIL constitutes a business combination or the acquisition of an asset, management considered the optional concentration test set out in IFRS 3. This test is a simplified assessment of whether what has been acquired is a business with assets and liabilities to process those assets, or simply a collection of assets. It poses the question of whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets, or not.

Based on a detailed analysis of the assets acquired, the Company decided that substantially all of the fair value of RDIL's assets was concentrated in a single asset, namely the development site at Immingham. Therefore, the Company is required to account for the acquisition as an asset purchase and allocate the total costs of the acquisition (including acquisition expenses) to the assets and liabilities according to their respective fair values.

Acquisition cost and allocation of assets
The total cost of the asset acquisition was as follows:

| | **£'000** |
|---|---|
| Cash paid | 2,483 |
| Deferred consideration | 7,250 |
| Acquisition expenses (legal fees etc) | 88 |
| **Total purchase consideration** | 9,821 |

The assets and liabilities recognised as a result of this acquisition are as follows:

| | Book value £'000 | Adjustment £'000 | Total £'000 |
|---|---|---|---|
| Cash and cash equivalents | 1 | – | 1 |
| Property, plant and equipment - development | 541 | 9,279 | 9,820 |
| Trade and other receivables | 1 | – | 1 |
| Trade and other payables | (1) | – | (1) |
| **Net assets acquired** | 542 | 9,279 | 9,821 |

Appropriate valuation of the deferred consideration
The acquisition of RDIL included deferred consideration of £7.25m. The exact amount was settled in March 2022, and therefore management consider that this value at 31 December 2021 is appropriate.

### 3. Revenue

The Company generates revenue through contracts in which it (i) sells Fischer-Tropsch ("FT") reactors, (ii) sells FT catalyst, (iii) provides licence agreements and (iv) performs engineering services. In general, contracts with the Company provide a licence 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 reactors and 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 with reactor and catalyst deliveries completed in 2020 was either subject to a performance test run in 2021 or the performance obligations expired under the terms of the contract in 2021 if the test was not completed. This has been assessed as a combined performance obligation and it was determined in 2021 that the above criteria have now been met. As such, all consideration received has been recognised as revenue in the year.

***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 stand alone 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.

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| FT reactor, catalyst and licence | 8,132 | 63 |
| Engineering services | 151 | 115 |
| Total | 8,283 | 178 |

FT reactor, catalyst and licence revenue in the amount of £8,132,000 for the year ended 31 December 2021 consisted principally of the sale or reactor and catalyst to a customer in the US, which had previously been deferred.

Revenue from engineering services was recognised on a time and materials basis during the period in which the services were delivered.

### 4. Finance income

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Interest income on bank deposits | 2 | 6 |
| Interest income on customer late payments | 32 | – |
| Total | 34 | 6 |

### 5. Finance costs

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Interest on lease liabilities | 116 | 142 |
| Foreign exchange losses | 435 | 708 |
| Total | 551 | 850 |

## 6. Other income

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

Income from government grants is recognised only when there is reasonable assurance that (a) the Company has complied with any conditions attached to the grant and (b) the grant will be received.

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Income from government grants | 956 | 290 |
| Release of aged deposit received | – | 80 |
| Profit on sale of fixed assets | – | 30 |
| Total | 956 | 400 |

## 7. Administrative expenses

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Employee benefit expense | 6,310 | 4,530 |
| Sub-contractor and consultant costs | 2,799 | 1,171 |
| Depreciation of property, plant and equipment | 453 | 500 |
| Amortisation of intangible assets | 172 | 137 |
| Depreciation of right-of-use asset | 459 | 462 |
| Patent and other IP costs | 193 | 104 |
| Insurance | 536 | 392 |
| Other direct and administrative costs | 1,257 | 1,043 |
| professional services | 756 | 404 |
| Legal | 215 | 358 |
| Travel | 181 | 137 |
| Total administrative expenses | 13,331 | 9,238 |

Included in administrative expenses were research and development costs of £2,122,000 (2020: £1,603,000)

## 8. Employee benefit expense

***Short-term employee benefits***
Accruals are included to reflect the cost of short-term compensation to employees for absences such as paid leave.

***Pensions***
The Company operates various defined contribution pension schemes for its employees. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefit derived from the current and prior periods.The amount charged to the Consolidated income statement in respect of pension costs and other post-retirement benefits represents the contributions payable in the year. Differences between contributions payable and contributions actually paid are accrued. The Company has no further payment obligations once the contributions have been paid.

The average monthly number of Company employees (including Executive Directors) was as follows.

| | **2021** | 2020 |
|---|---|---|
| | **number** | number |
| Research, design and development | 17 | 17 |
| Administration | 15 | 16 |

| | | |
|---|---|---|
| Total average headcount | 32 | 33 |

Their aggregate remuneration comprised the following items.

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Wages and salaries | 4,783 | 4,813 |
| Short-term non-monetary benefits | 491 | 560 |
| Social security contributions and similar taxes | 616 | 393 |
| Defined contribution pension costs | 330 | 228 |
| Severance expense | – | 43 |
| Share-based payments granted to directors and employees | 293 | 120 |
| Total remuneration before capitalisation of wages and salaries | 6,513 | 6,157 |
| Capitalisation of wages and salaries | (203) | (1,627) |
| Total remuneration | 6,310 | 4,530 |

Wages and salaries for the year ended 31 December 2021 include discretionary bonuses payable in 2022 to Executive Directors and employees totalling £1,052,000 (2020: £983,000) in respect of 2021 performance. The bonuses included in 2020 of £983,000 related to payments in respect of 2019 performance (no bonuses were awarded in respect of 2020 performance).

Short term non-monetary benefits are in respect of health insurance benefits provided to employees and the amounts paid for workers compensation policies in respect of US based employees.

The capitalisation of wages and salaries relates to employees who manufacture the reactors associated with one of the Company's sales contracts, where the costs are deferred until revenue and cost recognition is allowed in accordance with the performance obligations of the contract. In addition, capitalisation of wages and salaries includes those costs related to the Altalto project which are offset against Other liabilities.

## 9. Basic and diluted 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.

| | **2021** | 2020 |
|---|---|---|
| Loss attributable to owners of Velocys plc (£'000s) | (8,441) | (8,795) |
| Weighted average number of ordinary shares in issue | 1,078,827,346 | 836,710,315 |
| Basic and diluted loss per share (pence) | (0.78) | (1.05) |

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 2021 and 2020 there were no other potentially dilutive instruments.

## 10. Intangible assets

### Significant accounting policies
### Cost or valuation and amortisation

***Goodwill***
Goodwill is stated at cost less impairments. Goodwill is deemed to have an indefinite life and is tested for impairment at least annually.

***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 2020. This resulted in a loss on disposal of patents of £72,000.

***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.

**Amortisation**
The Company amortises intangible assets with a limited useful life, using a straight-line method, over the following periods:

- In-process technology: up to 20 years
- Patents, licences and trademarks: 20 years
- Software: 2-5 years

Amortisation charges of £172,000 for patents, licences and trademarks are included in administrative expenses (2020: £137,000). There were no amortisation charges recorded in respect of other classes of intangible assets during the year as the net book value was £nil (2020: £nil).

**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.

Impairment testing is initially performed at the individual asset level. The impairment test is then performed at the Cash Generating Unit ("CGU") level whereby the carrying value of each CGU is compared with its fair value. Should an impairment at a CGU level be detected, then the impairment is allocated against the CGU individual assets; initially against any Goodwill then against the other assets.

A CGU represents the lowest operating structure level for which there are separately identifiable cash inflows that are largely independent of other operating units. The Company has one CGU on the basis that the key end use market is that of sustainable transport fuels production. At this stage, the sustainable transport 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 other intangible assets 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.

The Company last recorded an impairment of intangible assets, which totalled £28.8m, in 2017. This comprised £7.4m of Goodwill, £20.6m of In-process technology and £0.8m of Patents, licence and trademarks. The majority of the intangible assets arose on the Company's acquisition of Velocys, Inc. in November 2008 and relates to the acquired microchannel process technology which forms an integral part of the Company's patented Fischer-Tropsch ("FT") reactors.

For the impairment testing of the single identified CGU, the Company, the recoverable amount is determined by comparing the carrying amount of the Company's total net assets with the fair value of the business, by reference to the value of Velocys plc's market capitalisation. This approach is followed to also determine whether any reversal of previous impairments is required.

The analysis performed at 31 December 2021 compared the carrying amount of £1.4m with the value of Velocys plc's equity based on the AIM-listed shares at this date. This assessment also considered the operating performance of the Company during 2021 which included progress on our reference projects and new external funding obtained. Whilst there was clear evidence of the Company's progress during 2021, Management also considered the wider economic environment and increased risks posed by the Covid-19 pandemic.

*Critical estimates and judgements*
In assessing whether there is any indication that an asset may be impaired or whether a reversal of prior year impairments is required, the Company considers, as a minimum, a number of indicators. In 2021, the Company considered:

- At 31 December 2021, whether the carrying amount of the Company's net assets was above or below Velocys plc's market capitalisation;
- Whether significant increases or decreases in the market price of the assets had occurred;
- Whether there were significant favourable or adverse changes in the extent or manner in which the assets are being used; and
- Whether there were significant favourable or adverse changes in the global market for sustainable aviation fuel and global economic factors more generally.

Based on the 2021 analysis, the Company concluded that no further impairment was required.

As detailed in the accounting policy set out above, the Company is considered to operate as a single CGU. Whilst the Company's strategy and biorefinery development plans are clearly defined, Management considers that it is still too early to rely upon its 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 previous years.

The Management also concluded that at 31 December 2021 there were insufficient indicators that impairment losses previously recognised had reversed. This was despite the market capitalisation exceeding the carrying amount of the Company's net assets, as the Board concluded that the Company's current commercial position, without any significant new customer contracts or additional investors into the reference projects outweighed the other positive aspects considered.

| **2021** | Goodwill £'000 | In-process technology £'000 | Patents, licence and trademarks £'000 | Software £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2021 | 7,398 | 23,681 | 1,971 | 96 | 33,146 |
| Additions | – | – | 513 | 5 | 518 |
| Foreign exchange movement | – | – | 7 | – | 7 |
| At 31 December 2021 | 7,398 | 23,681 | 2,491 | 101 | 33,671 |
| **Accumulated amortisation and impairment** | | | | | |
| At 1 January 2021 | 7,398 | 23,681 | 1,231 | 96 | 32,406 |
| Charge for the year | – | – | 172 | – | 172 |
| Foreign exchange movement | – | – | 7 | – | 7 |
| At 31 December 2021 | 7,398 | 23,681 | 1,410 | 96 | 32,585 |
| **Net book amount** | | | | | |
| At 31 December 2021 | – | – | 1,081 | 5 | 1,086 |

| 2020 | Goodwill £'000 | In-process technology £'000 | Patents, licence and trademarks £'000 | Software £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2020 | 7,398 | 23,681 | 1,598 | 96 | 32,773 |
| Additions | – | – | 513 | – | 513 |
| Disposals | – | – | (103) | – | (103) |
| Foreign exchange movement | – | – | (37) | – | (37) |
| At 31 December 2020 | 7,398 | 23,681 | 1,971 | 96 | 33,146 |
| **Accumulated amortisation and impairment** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| At 1 January 2020 | 7,398 | 23,681 | 1,154 | 96 | 32,329 |
| Charge for the year | – | – | 137 | – | 137 |
| Disposals | – | – | (31) | – | (31) |
| Foreign exchange movement | – | – | (29) | – | (29) |
| At 31 December 2020 | 7,398 | 23,681 | 1,231 | 96 | 32,406 |
| **Net book amount** | | | | | |
| At 31 December 2020 | – | – | 740 | – | 740 |

## 11. 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.

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.

| 2021 | Assets under construction £’000 | Land £’000 | Plant and machinery £’000 | Total £’000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2021 | – | 1,221 | 9,307 | 10,528 |
| Additions | – | 9,820 | 160 | 9,980 |
| Disposals | – | – | (344) | (344) |
| Foreign exchange | – | 8 | 58 | 66 |
| At 31 December 2021 | – | 11,049 | 9,181 | 20,230 |
| **Accumulated depreciation and impairment** | | | | |
| At 1 January 2021 | – | 1,074 | 7,975 | 9,049 |
| Charge for the year | – | – | 453 | 453 |
| Disposals | – | – | (345) | (345) |
| Foreign exchange | – | 7 | 60 | 67 |
| At 31 December 2021 | – | 1,081 | 8,143 | 9,224 |
| **Net book amount** | | | | |
| At 31 December 2021 | – | 9,968 | 1,038 | 11,006 |
| | Assets under construction | Land | Plant and machinery | Total |

| 2020 | £'000 | £'000 | £'000 | £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2020 | 982 | 1,299 | 8,281 | 10,562 |
| Additions | – | – | 342 | 342 |
| Transfers to plant and machinery | (982) | – | 982 | – |
| Foreign exchange | – | (78) | (298) | (376) |
| At 31 December 2020 | – | 1,221 | 9,307 | 10,528 |
| **Accumulated depreciation and impairment** | | | | |
| At 1 January 2020 | – | 1,142 | 7,686 | 8,828 |
| Charge for the year | – | – | 500 | 500 |
| Foreign exchange | – | (68) | (211) | (279) |
| At 31 December 2020 | – | 1,074 | 7,975 | 9,049 |
| **Net book amount** | | | | |
| At 31 December 2020 | – | 147 | 1,332 | 1,479 |

The addition of £9,820,000 of land is in respect of the development site at Immingham, UK. Refer to note 2 for further details.

As at 31 December 2021, the Company had not entered into any contractual commitments for the material acquisition of property, plant and equipment (2020: none).

As at 31 December 2021, the gross carrying amount of fully depreciated property, plant and equipment still in use was £7,217,000 (2020: £3,827,000).

## 12. Leases

The Company leases certain building and equipment under non-cancellable leases with varying lease terms. For these leases, that convey the right to control the use of an identified asset for a period of time, the Company recognises, on the Statement of Financial Position, a 'right-to-use asset' and a lease liability. These liabilities are measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at the inception of the lease or at any later lease extension. The incremental borrowing rates used are estimates and rely on management judgements.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the Income Statement over the lease period so as to produce a constant rate of interest on the remaining balance of each lease at each Reporting date.

To determine the incremental borrowing rate, the Company uses a build-up approach. This starts with a risk-free interest rate adjusted for credit risk for leases that do not have recent third party financing. Adjustments specific to the lease, e.g. term, country, currency and security, are then made to this risk-free rate. Interest expense (included in finance costs) was £116,000 (2020: £142,000). The total cash outflow as a result of leasing activity was £588,000 (2020: £572,000).

Lease terms are negotiated on an individual basis, and are with different lessors. The lease agreements do not impose any covenants, other than for the security interests of the lessor, over the leased assets. The assets may not be used as security for borrowing purposes. Building leases are typically for a fixed period of time, but some have had their lease terms extended by agreement with the lessor.

The associated right-of-use assets are initially measured at an amount equal to the lease liability. Any assessment of the lease liability, such as at a lease extension, results in an equal adjustments in the net book value of the associated asset. The right-to-use assets are depreciated over the lease term on a straight-line basis and are subject to impairment in accordance with IAS 36. No impairment was recorded at 31 December 2021 and at 31 December 2020.

Payments relating to short-term leases and to leases of low-value assets, are recognised as they fall due as an expense in the Income Statement. Short-term leases are leases with a lease term of 12 months or less.

Expenses related to short term leases and lease of low-value was £nil (2020: £2,000) and were included in administrative expenses.

| **2021** | Equipment £'000 | Buildings £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2021 | 210 | 1,314 | 1,524 |
| Additions | – | 316 | 316 |
| Disposals | (49) | (88) | (137) |
| Foreign exchange | 1 | 6 | 7 |
| At 31 December 2021 | 162 | 1,548 | 1,710 |
| **Accumulated depreciation** | | | |
| At 1 January 2021 | 122 | 749 | 871 |
| Charge for the year | 44 | 415 | 459 |
| Disposals | (45) | (85) | (130) |
| Foreign exchange | – | 10 | 10 |
| At 31 December 2021 | 121 | 1,089 | 1,210 |
| **Net book amount** | | | |
| At 31 December 2021 | 41 | 459 | 500 |

| **2020** | Equipment £'000 | Buildings £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2020 | 168 | 1,096 | 1,264 |
| Transfers to Buildings | (35) | 35 | – |
| Additions | 85 | 211 | 296 |
| Foreign exchange | (8) | (28) | (36) |
| At 31 December 2020 | 210 | 1,314 | 1,524 |
| **Accumulated depreciation** | | | |
| At 1 January 2020 | 63 | 365 | 428 |
| Charge for the year | 63 | 399 | 462 |
| Foreign exchange | (4) | (15) | (19) |
| At 31 December 2020 | 122 | 749 | 871 |
| **Net book amount** | | | |
| At 31 December 2020 | 88 | 565 | 653 |

During 2021 the lease terms for the Company's  offices in Ohio and Texas were extended. This resulted in an increase in the right-to-use assets of £316,000. The addition in 2020 of £296,000 related to the expansion of the Company's office space at its Oxford headquarters.

In 2021, an extension of the lease term for the Oxford headquarters, together with a reappraisal of the incremental borrowing rate of the lease and its remaining term, led to an effective net disposal in value of this lease of £22,000 (2020: £nil). In addition, there were sundry adjustments and corrections totaling £19,000 (2020: £nil) resulting in a net disposal in buildings lease values of £3,000.

During 2021 various equipment leases expired which have been derecognised. In addition, management's review of the lease assets resulted in the early derognision of a further equipment right-of-use asset. The net effect of derecognising these assets resulted in a net decrease of £4,000 (2020; £nil).

| Lease liability | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Current | 397 | 470 |
| Non-Current | 189 | 270 |
| | 586 | 740 |

## 13. 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.

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Raw materials and consumables | 286 | 336 |
| Work in progress | – | 45 |
| Finished goods | 481 | 589 |
| Total | 767 | 970 |

Raw materials and consumables consist of parts that will be consumed in the manufacturing of reactors.

As at 31 December 2021, the Company had a total inventory provision of £771,000 (2020: £653,000). The Company recorded £118,000 (2020: £270,000) related to slow moving inventory in the Administrative expenses line of the Consolidated income statement.

## 14. Trade and other receivables

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Trade receivables | 6 | 110 |
| Deferred costs | – | 4,947 |
| Prepaid costs | 748 | 531 |
| Grants receivable | 158 | 290 |
| Other receivables | 362 | 304 |
| Total | 1,274 | 6,182 |

Trade receivables represent assets that are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest. Trade receivables, in general, are collected within 45 days of invoice date.

Deferred costs as at 31 December 2020 are in respect of a customer contract, for which the Company also recorded deferred revenue as shown in note 17, these costs were fully expensed in 2021.

Trade receivables and deferred costs (contract assets) are provided against where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company, and a failure to make contractual payments for a period of greater than 90 days past due.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within administrative expenses in the income statement. Subsequent recoveries of amounts previously written off are credited against the same line item.

Grants receivable of £158,000 as at 31 December 2021 were in respect of the Green Fuels Green Skies grant awarded to the Altalto project. Grants receivable of £290,000 as at 31 December 2020 also related to grant funding for the Altalto project from the UK DfT, under the Future Fuels for Flight and Freight Competition.

Other receivables consist of vendor deposits and sales taxes recoverable.

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.

### 15. 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.

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Cash and cash equivalents | 25,506 | 13,051 |
| Total | 25,506 | 13,051 |

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

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Cash and cash equivalents UK | | |
| UK sterling denominated | 16,908 | 6,584 |
| US dollar denominated | 8,584 | 6,465 |
| Euro denominated | 14 | 2 |
| Total | 25,506 | 13,051 |

### 16. Trade and other payables

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Trade payables | 593 | 360 |
| Other taxation and social security | 203 | 31 |
| Accruals | 2,173 | 541 |
| Total | 2,969 | 932 |

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 (2020: 60 days or less).

### 17. Deferred revenue

Deferred revenue consists of contract liabilities as a result of instances in which the Company 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's contracts can require significant judgment.

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

| £'000 | Catalyst | Reactor | License | Total |
|---|---|---|---|---|
| **At 1 January 2020** | 2,031 | 2,802 | 1,199 | 6,032 |
| Contract liabilities incurred | 1,155 | 969 | – | 2,124 |
| **At 31 December 2020** | 3,186 | 3,771 | 1,199 | 8,156 |
| Contract liabilities incurred | – | – | 336 | 336 |
| Released deferred revenue | (3,186) | (3,445) | (1,535) | (8,166) |
| **At 31 December 2021** | – | 326 | – | 326 |

The deferred revenue remaining at 31 December 2021, is shown on the balance sheet as a current liability. Deferred revenue totalling £8,166,000 has been recognised during 2021 as the related performance obligations have been met.

## 18. Post position financial events

The following events took place after 31 December 2021.

### Grant of share options to Executives and employees

In January 2022, the Company granted options under the 2021 Share Option Scheme totalling 11,378,282 to Executives and senior management in respect of 2021 performance and options totalling 1,500,000 to new employees who joined the Company during 2021. The exercise price was set at the time of grant at 8.00 pence being the highest of the share price at the last fund raising, the share price on the date of grant and the weighted average share price for the month prior to grant. The Executive Directors, Mr. Wareborn and Mr. Morris received a total of 2,343,750 and 2,109,376 options respectively, allocated equally between time-based and performance-based options.

### Directorate Change

Andrew Morris, CFO, has advised the Board of his intention to leave Velocys in order to pursue other career opportunities. The intention is for Andrew to step down as CFO and Board Director on 30 June 2022. The recruitment process of the next CFO is underway.

### Sale and purchase option over Altalto Project site with Foresight Group LLP

In March 2022 Altalto Immingham Ltd ("Altalto") a wholly owned subsidiary of Velocys plc sold its 100% interest in Rula Developments (Immingham) Ltd ("RDIL") for £9.75 million, with a call option for Altalto to re-purchase RDIL within three years paying up to £11.75 million plus a quarterly option fee of £100,000 during the option period. This allowed Altalto to settle the deferred consideration payable of £7.25 million from the transaction that took place in December 2021, when Altalto took up its option to purchase RDIL, the property development company which owns the project site in Immingham, North East Lincolnshire, UK. Additionally, and subject to the exercise of the re-purchase option, Altalto has agreed to grant Foresight a right of first refusal to invest up to £100 million into the project,
alongside British Airways and other future investors, once the full funding us required. The financial effects of this transaction have not been recognised at 31 December 2021.

### New Technical Centre in Ohio

In March 2022 the Company secured a 15 year lease for a modern and sustainable facility of approximately 52,500 square feet of new building to be built near Columbus, Ohio. This will consolidate all our catalysis services, microchannel reactor core assembly and technology licensing under one roof. In line with our recent Placing Circular, this will involve a capital investment of up to £1.5 million in the building enhancements to fit our specific needs and £4.8 million in reactor core assembly automation enabling steady output of at least 12 reactors per year. It is expected that we will start moving into the building in Q4 2022 and Q1 2023.

### Extension of Agreements with British Airways

In March 2022, the Company agreed with British Airways ("BA") to extend both the UK Altalto project Joint Development Agreement and the Option Agreement for BA to acquire 50% of Altalto Ltd by one year to 31 March 2023. The original option was signed on 12 May 2020 and initially extended on 30 March 2021.

## 19. Statutory information

Copies of the 2021 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, Robert Robinson Avenue, The Oxford Science Park, Oxford, OX4 4GA, UK, as well as from the Company's website www.velocys.com.

## 20. Annual General Meeting

The Annual General Meeting ("AGM") is to be held on 21 June 2022. Notice of the AGM will be dispatched to shareholders with the Company's Annual Report and Accounts.