

News release

## Velocys plc

("Velocys" or "the Company")

17 September 2020

### Interim results for the six months ended 30 June 2020

Velocys plc (VLS.L), the sustainable fuels technology company, is pleased to announce its interim results for the six months ended 30 June 2020.

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

"During 2020 much has been achieved in delivering the Company's strategy and advancing towards our objectives of commercial delivery of our two reference projects in Immingham, UK and Mississippi, USA, and our technology to our client Red Rock Biofuels, in Oregon. This has been achieved despite the restrictions brought on us by the Covid-19 pandemic. Our mitigation included transferring to working from home at all our three locations from the earliest stage while maintaining our manufacturing operations in the USA, as well as continuing all engineering work with strong support by Worley, our engineering partner.

We completed a successful fundraise in July 2020 raising £21 million before expenses, which significantly strengthened the balance sheet of the Company. This allows us to focus on delivery of our reference projects whilst strengthening our manufacturing capability further in anticipation of orders from our reference projects, and our current and new clients.

In the second half of 2020 we remain focused on executing our strategy. Demand for sustainable fuels has gained significant momentum this year and we are in the position to deliver the technology to allow our clients to scale up Sustainable Aviation Fuel production from sustainable feedstocks, which is essential for global post-Covid economic recovery. In response, the UK Government established a newly formed Jet Zero Council and invited Velocys to become a founding member. I look forward to highlighting our progress during the rest of the year."

#### Operational Highlights:

- Altolto Immingham, UK, plant granted planning permission from North East Lincolnshire Council.
- Joint Development Agreement extension with £1m further funding from British Airways and Shell International Petroleum Company Ltd for the Altolto Immingham waste-to-fuels project.
- Further £0.5 million F4C grant from the UK Department for Transport secured for the Altolto Immingham project.
- Worley announced as engineering partner in the development of engineering packages for all the projects in the Velocys portfolio.
- Completed delivery of reactors and catalyst to Red Rock Biofuels in June 2020.
- £578,000 loan awarded by the Small Business Administration ("SBA"), a US Federal Agency, from the Paycheck Protection Program, as part of the US Government's stimulus package known as the Coronavirus Aid, Relief and Economic Security (CARES) Act. The loan is eligible for "forgiveness", becoming non-repayable upon application by Velocys if used for retaining US employees.
- Operating loss before exceptional items was reduced by 48% to £2.6 million compared to H1 2019 and was £8.4m less than first half 2018, demonstrating our focus on cost-management and control.

#### Financial Highlights:

- Revenue of £180,000 (H1 2019: £22,000).
- Operating loss of £2.6m, with exceptional items of £nil (H1 2019: £5.1m loss before exceptional items of £0.5m).
- Cash\* at period end of £816k (31 December 2019: £4.8m).
- H1 2020 cash outflow of £3.2m (H1 2019: cash outflow £5.1m).
- Fund raise of £21m (before expenses) in July 2020 (post-period end).

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

#### Outlook

- During the Covid crisis a positive environment for developers of third-party sustainable fuels projects has become apparent creating additional demand for our technology and engineering services.
- Advancing the Immingham UK project into Front End Engineering Design (FEED) with our industry partners Shell and British Airways, and towards financial close in 2022, are key objectives for this waste to sustainable fuels project.
- Developing the commercial project for the NEDO/Toyo Engineering project in Japan, after a successful demonstration of the integrated technology in Nagoya including the Velocys Fischer-Tropsch (“FT”) reactor, is the next stage in our long relationship with Toyo Engineering.
- We have adapted the technology solution for the Bayou Fuels Mississippi project to increase total fuel production and total carbon savings, making the project more attractive for additional third-party financing.”

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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.

[www.velocys.com](http://www.velocys.com)

## **Chairman's Statement**

**Philip Holland**

Having positioned ourselves during 2019 to deliver our micro-channel FT technology to our customers in the USA and Japan, we achieved this in the first half of 2020, and are now looking beyond the current set of projects to deliver to new third parties in accordance with our capital-light business model. This year has been extremely busy in delivery of our objectives even with the restrictions of the Covid-19 virus lockdown.

### **Covid-19 coronavirus pandemic and continued delivery**

During March 2020 both the UK and US Governments implemented a social distancing policy, meaning we had to close operations at our offices in Oxford, Houston and Plain City and establish a work-from-home policy. Even with these restrictions the Toyo project in Japan was commissioned and has been supported throughout its campaign trials, which have successfully produced liquid fuels. Our manufacturing suppliers in both Alabama and Wisconsin have continued to operate with remote supervision from our manufacturing team. The final of 4 reactors were completed in June and subsequently delivered to our customer Red Rock Biofuels. We have continued furthering the technical scope of work on both the Altalto Immingham and Mississippi Biorefinery reference projects. All this has been completed under remote working conditions, and I would like to thank the team for continuing to deliver on their objectives during this crisis.

### **Technical Development work in 2020**

We are focused on our reference projects in the UK and the USA in order to get them to a position of both acceptable capital cost and a commercial return which will attract further investment support. The technical work is being completed in cooperation with our engineering contractor Worley. In addition, we need to conclude all our licensing arrangements with our licensor partners in the projects before moving into the FEED phase of the project development. This is anticipated to be completed by the end of Q2 2021 when the FEED work will begin.

### **Fundraising**

As previously announced the Company successfully raised £21 million before expenses through a Placing, Retail Offer and Open Offer. This enabled all types of shareholder to participate in an oversubscribed offer. We are extremely pleased to see new high-quality institutional investors join our shareholder register and thank all those who participated in this fundraise. The fundraise enables the management team to concentrate on delivery and strategy execution, building shareholder value during this time.

### **Outlook**

The experience of working with the Velocys Board and the senior team has shown me the hard work that all of them put in throughout the year under such difficult circumstances during the Covid-19 crisis. It is impressive that the Company has in such a short few years gone from an R&D focus to commercial delivery success. I am confident that the team can drive the reference projects forward whilst also delivering to the third party owned projects at the same time. We will be pursuing our goal of becoming the provider of the integrated technology package and the FT island for the production of sustainable fuels around the world.

**Philip Holland**  
**Chairman**

# Chief Executive's Report

Henrik Wareborn

During the first half of the year we completed the manufacturing and delivery of three more reactors and associated catalyst to Red Rock Biofuels in Oregon. We passed a significant milestone with planning permission being granted for the Altalto Immingham waste-to-fuels plant in May. This is a first in the UK and validates the pathway of using our Fischer Tropsch (FT) technology in combination with waste gasification and associated gas clean-up, opening up for future similar projects and demand for our FT conversion technology in the UK and abroad.

Our small-scale demonstration FT reactor has been commissioned and is in operation producing liquid fuels at the NEDO project in Nagoya, Japan. The NEDO project is a demonstration of the conversion of forestry residue (wood chips) to sustainable aviation fuel in Japan on behalf of the Japanese Government in order to secure suitable policy support for the commercial plants to follow.

## Finance

The Company raised £21 million before expenses in July 2020 through a Placing, Retail Offer and an Open Offer. I am grateful for the support by established shareholders as well as new ones, which has significantly strengthened our balance sheet. We also secured a further £1 million of non-dilutive capital for the Altalto waste-to-fuels project from British Airways and Shell supporting the continued technical and commercial development of the project. In addition, the Altalto Immingham project has been awarded a grant of £0.5 million under the Future Fuels for Flight and Freight Competition by the UK Government.

During the early stages of the Covid-19 crisis in the USA the Company successfully applied for the so-called Pay-check Protection Program loan awarded by the Small Business Administration, a US Federal Agency of £578,000. The Pay-check Protection Program was 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. The loan is eligible for "forgiveness", becoming non-repayable if used for retaining US employees and maintaining US payroll. The Company is confident that it will meet the criteria for this "forgiveness" as we have continued to operate at full capacity in the US during the pandemic.

We have demonstrated a significant level of cost control during this difficult period. This financial discipline has meant that the operating loss before exceptional items of £2.6 million is 48% less than for the same period in 2019 and 76% less than for the first half of 2018.

## Communications

Other changes made at the end of 2019 have had positive impact during this year, including the changes to our communications and investor relations work. With the employment of Lak Siriwardene as Head of Communications and Sustainability, we have significantly improved our communication with all our stakeholders. We are using a multifaceted communication strategy with the utilisation of the full range of available channels to reach all our constituents.

There remain many challenges for full delivery of our capital light business model including the continued uncertainty regarding the pace of recovery from the Covid-19 induced economic crisis. However, with our recent successful fundraising we are in a strong position to meet the challenges as they arise with an experienced team able and confident to deliver our objectives.

## Financial review

### Revenue

The company recognised revenue of £180,000 (H1 2019: £22,000). The revenue was primarily the result of professional services for, and the delivery of reactor components to, Toyo and professional services related to on-going reference projects.

Operating losses were £2.6m before exceptional items of £nil (H1 2019: £5.1m before exceptional items of £0.5m). The decrease in operating loss is principally the result of diligent management of underlying overhead costs and prudent spend in the implementation of our reference projects.

### Expenses and income

Administrative expenses before exceptional items reduced to £2.8m compared to H1 2019 of £5.2m before and £4.7m after exceptional items. The reduction is principally the result of disciplined cost control over technical, legal and commercial consultants.

Other income was £115k for the six months ended 30 June 2020 (H1 2019: £83k). This was principally the net result of the sale of a patent and reactor revenue related to an old agreement with a customer where management considers the performance obligation has been satisfied.

## Assets and cash

The net assets of the Company were a negative £834k at 30 June 2020 (31 December 2019: positive £628k). The decrease was principally the result of the net effect of the increase in deferred revenue and the increase in deferred costs and inventory associated with the Red Rock Biofuels client. Also contributing was a decrease of cash and cash equivalents as a result of on-going operations. Further to the fundraise of £21m (before expenses) in July 2020 a positive net assets position can subsequently be reported. In addition, the SBA loan of £578k is expected to be forgiven by the US Federal Agency in the second half of the year which will have a positive effect on the net assets.

The Company used £3.2m cash in operations (H1 2019: £5.1m) principally in the pursuit of the commercial projects which has driven the net loss. The Company had a £1.5m increase in deferred revenue (H1 2019: £339k) principally as a result of the delivery of catalyst and a reactor in accordance with the agreements with Red Rock Biofuels. The Company continues to carefully manage its underlying cost base and spend prudently on the implementation of its reference projects.

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

## Impairment

No impairment was recorded as of 30 June 2020 (30 June 2019 £nil). During H1 2020, the Company did not impair any of its assets as a result of IFRS 9 or IAS 38. In addition, the company did not reverse any impairments despite the favourable market capitalisation of the Company at 30 June 2020. The Company will review the possibility of the reversal of prior year impairments at year end 2020 once a longer period of stability in the share price and the market capitalisation has been demonstrated.

## Deferred Revenue

Deferred revenue consists of contract liabilities as a result of instances in which the Company receives payments prior to the satisfaction of a 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 recorded a total of £7.5m deferred revenue at 30 June (31 December 2019: £6m) of which £7.1m related to the sales of reactors and catalysts to Red Rock Biofuels. The relevant performance obligations are expected to be met in 2021 once the plant is in commissioning.

## Fundraises

- No fund raises were completed during the period to 30 June 2020.
- Just after the period end, in July 2020, Velocys raised a total of £21m (before expenses), which will allow us to develop our reference projects into FEED, deliver engineering packages into third party projects and design new manufacturing capacity to meet the demand for our micro-channel FT reactors.
- Prior to this fundraise the Company secured a further £1 million funding for the Altalto Immingham waste to sustainable fuels project from Shell and British Airways in an extension to the Joint Development Agreement between us. This extension supports the continued technical and commercial development of the project.
- The Company was approved for a £578k Pay-check protection program loan awarded by the SBA, a US Federal Agency.

The Directors intend to use the net proceeds raised by the Placing and Retail Offer of up to approximately £19.65m million to complement the funding commitments already made by British Airways and Shell as follows:

- (i) to further strengthen its intellectual property and trade secret protection, working capital and central costs;
- (ii) to complete the process engineering phase of FEED for the Altalto Immingham Project;
- (iii) to complete the fund raising for the Mississippi Bio-refinery Project and launch the associated FEED;
- (iv) to evaluate and design a de-bottlenecking of the reactor core manufacturing line in the United States to reach a production capacity of more than 12 Fischer-Tropsch reactors per year (twice the current capacity) and
- (v) to implement learnings from a post-operative analysis from the Oklahoma demonstration reactors for the benefit of our clients via updated operating manuals and training.

## Future funding requirements

As discussed in note 1 below, the Company has prepared these statements on a going-concern basis. Its forecasts

show that the Company will not require additional external funding within the 12-month forecast period to be able to continue as a going concern.

**Henrik Wareborn**  
**Chief Executive Officer**

# Consolidated income statement

for the six months ended 30 June 2020

		6 months ended 30 June 2020 (unaudited) £'000	6 months ended 30 June 2020 (unaudited) £'000	6 months ended 30 June 2020 (unaudited) £'000	6 months ended 30 June 2019 (unaudited) £'000	6 months ended 30 June 2019 (unaudited) £'000	6 months ended 30 June 2019 (unaudited) £'000
	Note	Before exceptional items	Exceptional items (note 3)	Total	Before exceptional items	Exceptional items (note 3)	Total
<b>Revenue</b>	5	180	-	180	22	-	22
Cost of sales		(106)	-	(106)	(8)	-	(8)
<b>Gross profit</b>		74	-	74	14	-	14
Administrative expenses		(2,821)	-	(2,821)	(5,203)	533	(4,670)
Other income	6	115	-	115	83	-	83
<b>Operating loss</b>		(2,632)	-	(2,632)	(5,106)	533	(4,573)
<b>Loss before net finance (costs)/income</b>		(2,632)	-	(2,632)	(5,106)	-	(4,573)
Finance income	7	5	-	5	20	-	20
Finance costs	8	(92)	-	(92)	(112)	-	(112)
<b>Net finance income</b>		(87)	-	(87)	(92)	-	(92)
<b>Loss before income tax</b>		(2,719)	-	(2,719)	(5,198)	533	(4,665)
Income tax credit		-	-	-	286	-	286
<b>Loss for the financial year attributable to the owners of Velocys plc</b>		(2,719)	-	(2,719)	(4,912)	533	(4,379)
<b>Loss per share attributable to the owners of Velocys plc</b>							
Basic and diluted loss per share (pence)	9	(0.42)	-	(0.42)	(1.20)	-	(1.07)

# Consolidated statement of comprehensive income

for the six month ended 30 June 2020

	6 months ended 30 June 2020 (unaudited) £'000	6 months ended 30 June 2020 (unaudited) £'000	6 months ended 30 June 2020 (unaudited) £'000	6 months ended 30 June 2019 (unaudited) £'000	6 months ended 30 June 2019 (unaudited) £'000	6 months ended 30 June 2019 (unaudited) £'000
	Before exceptional items	Exceptional items (note 3)	Total	Before exceptional items	Exceptional items (note 3)	Total
<b>Loss for the year</b>	(2,719)	-	(2,719)	(4,912)	533	(4,379)
<b>Other comprehensive (expense)/income Items that may be reclassified to the income statement in subsequent periods</b>						
Foreign currency translation differences	(640)	-	(640)	(475)	-	(475)
<b>Total comprehensive (expense)/income for the year attributable to the owners of Velocys plc</b>	(3,359)	-	(3,359)	(5,387)	533	(4,854)



# Consolidated statement of financial position

as at 30 June 2020

	Note	30 June 2020 (unaudited) £'000	31 December 2019 (audited) £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	10	585	444
Property, plant and equipment		1,325	1,734
Right-of-use asset		589	836
		2,499	3,014
<b>Current assets</b>			
Inventories	12	1,453	3,332
Trade and other receivables	11	6,222	1,637
Current income tax asset		648	648
Cash and cash equivalents		816	4,797
		9,139	10,414
<b>Total assets</b>		<b>11,638</b>	<b>13,428</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		(1,633)	(1,331)
Lease liability		(453)	(581)
Borrowings	13	(198)	-
Other liabilities	14	(2,126)	(2,804)
Deferred revenue	15	(7,142)	(5,562)
		(11,552)	(10,278)
<b>Non-current liabilities</b>			
Lease liability		(159)	(343)
Borrowings	13	(380)	-
Deferred revenue	15	(381)	(470)
		(920)	(813)
<b>Total liabilities</b>		<b>(12,472)</b>	<b>(11,091)</b>
<b>Net assets</b>		<b>(834)</b>	<b>2,337</b>
<b>Capital and reserves attributable to owners of Velocys plc</b>			
Called up share capital	16	6,438	6,438
Share premium account	16	184,256	184,256
Merger reserve		369	369
Share-based payments reserve		16,413	16,225
Foreign exchange reserve		2,649	3,289
Accumulated losses		(210,959)	(208,240)
<b>Total equity</b>		<b>(834)</b>	<b>2,337</b>

The financial statements were approved by the Board of directors and authorised for issue on 16 September 2020. They were signed on its behalf by:

**Henrik Wareborn**  
Chief Executive Officer

Company number 05712187

# Consolidated statement of changes in equity

for the six months ended 30 June 2020

	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
<b>Balance at 1 January 2019</b>	4,105	180,016	369	16,143	3,551	(198,625)	5,559
Loss for the year	–	–	–	–	–	(9,615)	(9,615)
<b>Other comprehensive expense</b>							
Foreign currency translation differences	–	–	–	–	(262)	–	(262)
<b>Total comprehensive expense</b>	1,913	182,208	369	16,143	(262)	(9,615)	(9,877)
<b>Transactions with owners</b>							
Share-based payments – value of employee services	–	–	–	82	–	–	82
Proceeds from share issues	2,333	4,240	–	–	–	–	6,573
<b>Total transactions with owners</b>	2,333	4,240	–	82	–	–	6,655
<b>Balance at 1 January 2020</b>	6,438	184,256	369	16,225	3,289	(208,240)	2,337
Loss for the period	–	–	–	–	–	(2,719)	(2,719)
<b>Other comprehensive expense</b>							
Foreign currency translation differences	–	–	–	–	(640)	–	(640)
<b>Total comprehensive expense</b>	–	–	–	–	(640)	(2,719)	(3,359)
<b>Transactions with owners</b>							
Share-based payments – value of employee services	–	–	–	188	–	–	188
<b>Total transactions with owners</b>	–	–	–	188	–	–	188
<b>Balance at 30 June 2020</b>	6,438	184,256	369	16,413	2,649	(210,959)	(834)

# Consolidated statement of cash flows

for the six months ended 30 June 2020

	Note	6 months ended 30 June 2020 (unaudited) £'000	6 months ended 30 June 2019 (unaudited) £'000
<b>Cash flows from operating activities</b>			
Operating loss		(2,632)	(4,573)
Depreciation and amortisation		593	344
Share-based payments		188	15
Changes in working capital (excluding the effects of exchange differences on consolidation)			
Trade and other receivables		(3,964)	(255)
Trade and other payables		302	(322)
Altalto Liability	14	(678)	(1,143)
Deferred revenue	15	1,491	339
Inventory		1,748	(693)
Cash consumed by operations		(2,952)	(6,288)
Tax credits received		-	286
<b>Net cash used in operating activities</b>		<b>(2,952)</b>	<b>(6,002)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(557)	(453)
Purchase of intangible assets	10	(249)	(211)
Payment from/(loan to) associate ENVIA		-	1,681
Proceeds from the sale of patents	6	53	-
Proceeds from the sale of assets	6	-	79
Interest received	7	5	20
<b>Net cash (used in)/generated from investing activities</b>		<b>(748)</b>	<b>1,116</b>
<b>Cash flows from financing activities</b>			
Interest paid	8	(5)	(2)
Principle element of lease payments	8	(83)	(98)
Proceeds/(repayment) of borrowings	13	578	(144)
<b>Net cash generated from/(used in) financing activities</b>		<b>490</b>	<b>(244)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(3,210)</b>	<b>(5,130)</b>
Cash and cash equivalents at beginning of year		4,797	6,964
Exchange movements on cash and cash equivalents		(771)	(556)
<b>Cash and cash equivalents at end of period</b>		<b>816</b>	<b>1,278</b>

# Notes to the unaudited interim financial statements

For the six months ended 30 June 2020

## 1. General information, basis of preparation and accounting policies

Velocys plc operates through a number of subsidiaries in the UK and the US, and collectively they are referred to in these unaudited interim financial statements as the “Company” or “Velocys”, with Velocys plc as “Velocys plc” or the “parent company”.

The unaudited interim financial statements have not been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (IFRSs as adopted by the EU), IFRS Interpretations Committee Interpretations, or the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the IAS Regulation. They do not include all the statements required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at 31 December 2019.

### Accounting policies

The unaudited interim financial statements have been prepared using the same accounting policies adopted in the Company’s financial statements for the year ended 31 December 2019, except as described below.

Items included in the unaudited interim financial statements of each of the Company’s entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in sterling (£).

### Judgements and estimates

In preparing these unaudited interim financial statements, the significant judgements made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were as stated within the consolidated financial statements for the year ended 31 December 2019.

### Going Concern

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. The Company 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 £578,000; and has been awarded a further £0.5m F4C grant from the Department of Transport in the UK.

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

## 2. Publication of non-statutory accounts

The unaudited interim financial statements presented in this document have not been audited or reviewed and do not constitute Group statutory accounts as defined in section 434 of the Companies Act 2006. Group statutory accounts for the year ended 31 December 2019 were approved by the Board of Directors on 5 August 2020 and delivered to the Registrar of Companies. The comparative figures for the year ended 31 December 2019 have been derived from the statutory accounts for that year. The auditors’ report on those accounts, which was not modified, drew attention to the adequacy of the disclosure made in the financial statements concerning Velocys’ ability to continue as a going concern, under section 498(2) or (3) of the Companies Act 2006.

### 3. 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 of Directors 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.

	6 months ended 30 June 2020 (unaudited) £'000	6 months ended 30 June 2019 (unaudited) £'000
Administrative expenses:		
Recovery of loan to associate ENVIA	-	533
Total	-	533

### 4. Segmental information

#### Business segments

At 30 June 2020 the Company is organised as a world-wide business comprising a single segment.

#### Geographic segments

The Company's business operates in three main geographical areas. Revenue is allocated based on the country in which the customer is located.

	6 months ended 30 June 2020 (unaudited) £'000	6 months ended 30 June 2019 (unaudited) £'000
Americas	27	22
Asia Pacific	153	-
Total revenue	180	22

Revenue recognised during the six months ended 30 June 2020 originated predominately from Japan relating to engineering service in the Asia Pacific region.

### 5. Revenue

The Company generates revenue through contracts in which it (i) sells Fischer-Tropsch reactors, (ii) leases or 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, which is used in specifically designed reactors. The majority of the Company's revenue is derived from a small number of significant commercial customers and development partners.

Determining whether the services provided are considered distinct performance obligations 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 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 is allocated to the respective performance obligations based on relative transaction prices and is recognised as services are delivered to the customer or in some instance, as when the catalyst is leased, revenue is recognised over the estimated life of the catalyst. Revenue is measured as the amount of consideration expected to be received in exchange for the services delivered.

Revenue is recognised when the Company satisfies a performance obligation by transferring promised goods or services to a customer. Otherwise, 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.

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. In 2019, there is one contract that has been assessed as a combined performance obligation and it was determined that none of these criteria are met. As such, all consideration received has been deferred and revenue will be recognised when the final project is completed and control is transferred to the customer.

Contract modifications are accounted for prospectively or as a cumulative catch-up adjustment depending on the nature of the change. Revenue from engineering services is recognised as services are delivered to the customer.

	<b>6 months ended 30 June 2020 (unaudited)</b>	6 months ended 30 June 2019 (unaudited)
	£'000	£'000
FT reactor, catalyst and license	68	-
Engineering services	112	22
<b>Total</b>	<b>180</b>	<b>22</b>

FT reactor, catalyst and license revenue consisted principally of the sale of catalyst to a customer in Japan in the Asia Pacific region. Engineering services consisted principally of the services provided to the same customer in Japan. In addition engineering services were provided to a customer in the Americas.

## 6. Other income

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

	<b>6 months ended 30 June 2020 (unaudited)</b>	6 months ended 30 June 2019 (unaudited)
	£'000	£'000
Sale of patent	53	-
Recognition of deferred revenue	77	-
Sale of fixed assets	-	79
Foreign exchange movement	(15)	4
<b>Total</b>	<b>115</b>	<b>83</b>

In March 2020, the Company sold a patent that was no longer being actively used. At 30 June 2020, the Company has recognised £77,000 of reactor revenue related an agreement with a customer where management believes the performance obligation has been satisfied.

## 7. Finance income

	<b>6 months ended 30 June 2020</b> (unaudited) £'000	6 months ended 30 June 2019 (unaudited) £'000
Interest income on bank deposits	5	20
Total	5	20

## 8. Finance costs

	<b>6 months ended 30 June 2020</b> (unaudited) £'000	6 months ended 30 June 2019 (unaudited) £'000
Interest on lease payments	83	98
Interest fees	5	2
Foreign exchange movement	4	12
Total	92	112

## 9. 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.

	<b>6 months ended 30 June 2020</b> (unaudited)	6 months ended 30 June 2019 (unaudited)
Loss attributable to owners of Velocys plc (£'000s)	(2,719)	(4,379)
Weighted average number of ordinary shares in issue ('000)	643,756	410,423
Basic and diluted loss per share (pence)	(0.42)	(1.07)

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.

## 10. Intangible assets

### *Patents, licenses 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. For the six months ended 30 June 2020, the Company did not abandon any non-core patents (31 December 2019: £291,000).

### *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 12 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.

The Company did not impair or reverse any impairment to its intangibles for the six months ended 30 June 2020 (31 December 2019: £nil). The table below presents a roll forward of intangible assets.

	Patents, In-process license and				Total
	Goodwill	technology	trademarks	Software	
<b>6 months ended 30 June 2020 (unaudited)</b>	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
At 1 January 2020	7,398	23,681	1,598	96	32,773
Additions	–	–	249	–	249
Sale of patent	–	–	(53)	–	(53)
Foreign exchange movement	–	–	21	–	21
At 30 June 2020	7,398	23,681	1,815	96	32,990
<b>Accumulated amortisation and impairment</b>					
At 1 January 2020	7,398	23,681	1,154	96	32,329
Charge for the year	–	–	62	–	62
Foreign exchange movement	–	–	14	–	14
At 30 June 2020	7,398	23,681	1,230	96	32,405
<b>Net book amount</b>					
At 30 June 2020	–	–	585	–	585

Patents,  
In-process license and



	Goodwill	technology	trademarks	Software	Total
<b>31 December 2019 (audited)</b>	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
At 1 January 2019	7,398	23,681	1,580	96	32,755
Additions	–	–	394	–	394
Disposals	–	–	(291)	–	(291)
Foreign exchange movement	–	–	(85)	–	225
At 31 December 2019	7,398	23,681	1,598	96	32,773
<b>Accumulated amortisation and impairment</b>					
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)	–	233
At 31 December 2019	7,398	23,681	1,154	96	32,329
<b>Net book amount</b>					
At 31 December 2019	–	–	444	–	444

## 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 30 June 2020, deferred costs represented £5,185,000 (31 December 2019: £1,054,000) and are principally related to the Red Rock project. Also included in the Trade and other receivables are prepaid costs of £392,000 (31 December 2019: £447,000) and VAT receivables in the amount of £123,000 (31 December 2019: £99,000). Trade receivables of £522,000 (31 December 2019: £37,000) are considered not material and, in general, are collected within 45 days of invoice date.

	<b>30 June 2020 (unaudited)</b>	31 December 2019 (audited)
	£'000	£'000
Trade and other receivables – non-current	-	-
Trade and other receivables - current	6,222	1,637
<b>Total</b>	<b>6,222</b>	<b>1,637</b>

## 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.

	<b>30 June 2020</b> (unaudited)	31 December 2019 (audited)
	£'000	£'000
Raw materials and consumables	437	1,782
Work in progress	-	1,550
Finished good	1,016	-
<b>Total</b>	<b>1,453</b>	<b>3,332</b>

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.

At 30 June 2020, the Company recognised a provision of £270,000 (31 December 2019: £408,000) related to slow moving inventory in the Administrative expenses line of the consolidated income statement.

The Company had no impairments related to inventory for the period ending 30, June 2020.

### **13. Borrowings**

In April 2020, the Company entered into a new loan under the Pay-check Protection Program ("PPP") awarded by the Small Business Administration ("SBA"), a US Federal Agency, in the amount of £578,000. The SBA PPP 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. There are no loan covenants associated with the loan. 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".

### **14. Other liabilities**

Other liabilities are comprised of contract liabilities related to the development funding received from industry partners related to the next stage of the UK Altalto Immingham waste-to-jet project, being £2,126,000 at 30 June 2020 (31 December 2019: £2,804,000).

### **15. Deferred revenue**

Deferred revenue consists of contract liabilities as a result of instances in which the Company receives payments prior to the satisfaction of a 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
<b>At 1 January 2019</b>	2,065	1,949	1,199	5,213
Contract liabilities incurred	499	853	–	1,352
Released deferred revenue	(533)	–	–	(533)
<b>At 31 December 2019</b>	2,031	2,802	1,199	6,032
Contract liabilities incurred	531	1,037	-	1,568
Revenue recognised in the period	-	(77)	-	(77)
<b>At 30 June 2020 (unaudited)</b>	2,562	3,762	1,199	7,523

At 30 June 2020, the Company has recognised £77,000 of reactor revenue related an agreement with customer that management believes the performance obligation has been satisfied.

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 3.

## 16. Movement in equity

Share capital and share premium include ordinary shares in Velocys plc issued to shareholders and options that have been exercised by employees and associated consultants.

	Number of shares* (thousands)	Ordinary shares £'000	Share Premium (restated) £'000
<b>At 1 January 2019</b>	410,423	1,913	182,208
Proceeds from share issues	233,333	2,333	4,240
<b>At 31 December 2019</b>	643,756	6,438	184,256
<b>At 30 June 2020 (unaudited)</b>	643,756	6,438	184,256

\* All shares have been issued, authorised and fully paid.

For the six months ended 30 June 2020, the Company did not issue any shares or complete fundraises which would have resulted in the issuance of shares. The Company did complete a fundraise in the second half of 2020, see note 17.

## 17. Post period end events

### Fundraise of £21 million completed in July 2020

In 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.

### US SBA PPP Loan (CARES Act)

In September 2020, the Company applied for forgiveness of the SBA PPP loan in accordance with the terms of the loan. The Company is currently waiting for approval of the forgiveness from the SBA.

## 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.