VELOCYS

News release

Velocys plc

(“Velocys” or “the Company”)

23 September 2021

Velocys Gross Profit £3.3m first half 2021

Velocys plc (VLS. L), the sustainable fuels technology company, is pleased to announce its interim results for the six months ended 30 June 2021.

Henrik Wareborn, CEO of Velocys, said:

“Our interim results demonstrate that Velocys has achieved an important milestone, recognising £8.2m of revenue and £3.3m gross profit in HY2021 from our first major commercial customer contract. The downwards trend in our operating loss continued, declining to £2.0m in HY2021 from £2.6m in HY2020 (£5.2m in HY2019 and £11.0m in HY2018). This shows that the Company is controlling its spending well whilst also delivering to our customers and progressing our two reference projects towards funding for their FEED stages and then onto financial close.

“At the same time, I am pleased with the safe and efficient operational performance of Velocys despite the challenges of COVID-19, and excited about the sustainable fuels market dynamics and the business development opportunities available to us for the short, medium and long term.”

Financial highlights

- Revenue of £8.2m (HY2020: £0.2m), mainly from licensing fees and sales of reactors and catalyst for customer contract awarded in 2017.
- Gross profit of £3.3m (HY2020: £0.1m).
- Operating loss of £2.0m (HY2020: £2.6m).
- Cash at period end of £8.3m (31 December 2020: £13.1m).
- Cash outflow of £4.8m (HY2020: cash outflow £3.2m).

Operational highlights (including post period events)

Significant momentum across the Company’s reference projects and commercial collaborations:

- **Bayou Fuels (Mississippi, US) reference project:**
  - Advancement of multiple pre-FEED workstreams.
  - Koch Project Solutions (part of Koch Industries Inc) appointed via a Strategic Framework Agreement to provide a turn-key EPC contract.
  - The Biden Administration in the US announced in early September an extensive programme of policy support to accelerate the supply of sustainable fuels in aviation and highlighted Velocys’ technology as a key contributor to scaling up sustainable aviation fuel (“SAF”) production.
  - Advanced discussions held for potential fuel offtake arrangements.
  - Preparations underway towards project financing for the FEED stage of the project which is expected to occur in HY1 2022.

- **Altalto (UK) reference project:**
  - British Airways extended the Altalto option agreement with Velocys thereby demonstrating continued commitment for domestic UK SAF production.
  - Altalto was awarded a grant under the Green Fuels Green Skies of £2.4m in August by the UK Government to cover 100% of the costs to advance this critical waste conversion facility for the UK for the next 7 months.

- Continued technical development of the project and discussions to drive UK Government policy to support future funding of the project.

- **Commercial SAF projects:**
  - Collaboration agreement signed with Toyo Engineering in Japan to start development of their commercial scale biomass-to-jet fuel project along with other renewable fuel opportunities
  - Velocys selected by Toyo Engineering to supply a compact FT reactor for a demonstration project to convert CO2 and Hydrogen directly to synthetic “e-fuels” via Artificial Photosynthesis.
  - Fuel from the NEDO demonstration in Japan was used in a commercial flight on 17 June by Japan Airlines powered by a 25% blend of SAF and fossil standard Jet A1 fuel. This was the first time globally a commercial flight was fuelled by such a large blend percentage of synthetic jet fuel made from woodchips.
  - £8.1m revenue recognised from US customer project following completion of a contract awarded in 2017.

- **Other highlights:**
  - We have appointed two new Non-Executive Directors; Ann Markey and Tom Quigley who bring extensive corporate finance and renewables experience to the Board.
  - In July 2021 a £0.5m loan awarded in 2020 by the Small Business Administration, a US Federal Agency, from the Paycheck Protection Program as part of the US Government’s stimulus package in April 2020 was fully forgiven and became a grant.
  - Continued investment into our IP strategy and strengthening of the IP portfolio.
  - Completion of the evaluation and design of the de-bottlenecking of the reactor core manufacturing line as a pre-cursor to streamlining and expanding Velocys reactor manufacturing capacity.

Outlook

- The final stage of preparing the US Bayou Fuels project for its FEED fund raise is underway to take advantage of increased investor appetite for advanced fuel decarbonisation technologies in the US alongside achieving the best possible technical readiness to commence FEED. Velocys is targeting completion of fuel offtake agreements for the project ahead of completion of substantial third-party FEED project funding which is currently expected in H1 2022. The Company believes that securing substantial FEED funding will significantly de-risk funding for the remainder of the project to financial close. Velocys will be a key supplier to the project following commencement of FEED.
- Global government policy support to accelerate SAF supply is increasing, as evidenced by the recent announcement by the White House in the US and separately the UK Government’s SAF mandate consultation process. Whilst there is a significant lead time to construct and deliver commercial scale biorefineries, Velocys is confident that having first of a kind projects in FEED with world leading partners will provide us with many more commercial opportunities to offer executable pathways to achieve the “net-zero” targets of our clients globally.

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 UK-based sustainable fuels technology company. Velocys designed, developed and now licenses proprietary Fischer-Tropsch technology for the generation of clean, low carbon, synthetic drop-in aviation and road transport fuel from residual woody biomass and municipal solid waste. The Velocys technology can also enable the production of zero carbon fuels for the airline industry from renewable power and CO_2.

Velocys is at present developing two reference projects: the Bayou Fuels project in Natchez, Mississippi, USA (incorporating Carbon Capture and Storage) and the Altalto project in Immingham, UK, to produce fuels that significantly reduce both greenhouse gas emissions and key exhaust pollutants for aviation and road transport. Originally a spin-out from Oxford University, in 2008 the Company acquired a US company based on complementary reactor technology developed at the Pacific Northwest National Laboratory. Velocys is headquartered in Oxford in the United Kingdom.

www.velocys.com

CEO Report

Technology

The Velocys proprietary technology is well suited to enable the conversion of non-fossil feedstocks such as cellulosic waste materials into ultra-clean Sustainable Aviation Fuel, SAF, with a net carbon intensity significantly below zero. All clients and their stakeholders who have committed to "net-zero" need negative carbon intensity fuels as some residual positive emissions are inevitable.

The reason the Velocys technology is superior in this regard is that it enables permanent sequestration of residual biogenic carbon-dioxide. We are therefore contributing to the reversal of the flow of carbon from the atmosphere back into the crust of the Earth.

Our clients in the US, Japan and the UK, including our two reference projects, are advancing commercial scale deployments of the Velocys synthetic fuel technology and our patented integrated process solution from solid feedstock to finished sustainable fuels based on the availability of sustainable feedstocks at each location.

Policy and market developments

Policy support for the large-scale sustainable fuels transition has strengthened significantly in the US, UK and within the EU during this year. Prices for credits awarded for avoided carbon in the advanced cellulosic fuel sector has more than doubled in the US compared to in 2020. In addition, a significant additional incentive for production of SAF in the US has been proposed and is expected to pass through Congress later this year.

Meanwhile, in the EU and in the UK, new ambitious proposals have been presented mandating the transition away from fossil fuels into SAF in the aviation sector starting with 2% of all fuel lifted in the EU from 2025. Aggressive mandates and incentives for domestic sustainable fuels industrialisation are expected to be announced in the UK this year.

The policy incentives are designed to provide, at least, a level playing field between polluting fossil fuels and fuels which contribute to the reduction of the volume of CO_2 in the atmosphere by equalizing the net cost to the end consumers.

Velocys has therefore focused on building delivery capacity for our clients both in terms of delivering catalyst and reactors as well as the "software" of engineering solutions and IP licencing.

Growth strategy

The Company has made significant progress with both its reference projects and future commercial opportunities, in particular, with Toyo Engineering in Japan. This builds on commercial sales of reactors to Red Rock Biofuels which were recognised during the reporting period and the successful completion of a demonstration plant in Japan in 2020, which used Velocys FT technology to generate SAF which was recently used in the first commercial flight to be largely fuelled by synthetic jet fuel made from woodchips.

The Company's two reference projects (the Altalto Immingham Project and the US Bayou Mississippi Bio-refinery Project) are designed to accelerate the technology adoption further, even though the technology is already commercially referenced through the Company's work with Red Rock Biofuels LLC in Oregon, Toyo Engineering in Japan and a demonstration plant in Oklahoma.

In addition to the Company's existing reference projects and ongoing significant commercial opportunities in Japan, the Company is continuing discussions with a number of parties who are interested in building a SAF plant. Whilst the Company is currently focussed primarily on progressing its reference projects and commercial agreements in Japan, over the coming 12 months, the Company expects to expand its business development capabilities in order to ensure continued strengthening of the Company's pipeline of projects.

HSSE

Health, Safety and Sustainability remains at the core of everything we do as a Company. Relentless focus on HSSE is part of the licence to operate in our industry. Velocys has a pro-active, open, inclusive and transparent approach to health and safety. Any near-miss, unsafe condition or proposed improvement is documented, discussed and used for continuous improvement of our safety policies, culture and behaviour. We are designing our process solutions for maximum sustainability not only for net carbon reduction but also by using grey municipal waste water for cooling, recycling of used catalyst metals and green power for compressors and pumps, for example.

I am proud to share that we had zero Lost Time Accidents across our sites during the period while we returned partly to site work at our manufacturing, technology and development sites from having largely worked remotely during 2020.

I am inspired and grateful for the resilience, ingenuity and grit demonstrated by all my Velocys colleagues to successfully navigate such a challenging economic, health, safety and technical environment over the first six months of 2021. This is a very busy time for the Company commercially, technically and operationally, and I am confident about the outlook for Velocys.

Henrik Wareborn
CEO

Chairman's Report

Governance and Board changes

Our shareholders demonstrated strong faith in our strategy by overwhelmingly passing all resolutions proposed at the AGM in June. The Executives have maintained close contact with our shareholders via a range of engagements individually and in groups over various platforms. The feed-back received has been constructive and helpful as we accelerate the commercial deployment of our technology developed over many years thanks to our patient long term shareholders.

The departure last year of Pierre Jungels and the announced standing down of Sandy Shaw in September this year created two vacancies for NEDs which we have filled by appointing Ann Markey and Tom Quigley on 26 July after a rigorous search executed during the first half of this year. We were delighted to see the level of interest and calibre of candidates available to Velocys at this time. I am pleased to welcome Ann and Tom to the Velocys board and I am sure the Company will benefit significantly from their deep experience in critical areas required for the safe and successful stewardship of Velocys going forward.

The appointment of Ann and Tom has allowed me to create a new Risk and Sustainability Committee, to give these aspects of our business more focus, and to update the Board sub-committee leadership. As previously announced, following the standing down of Sandy Shaw, the Board sub-committees will be comprised as follows:

Committee	**Chair**	**Members**
Audit	Ann Markey	Darran Messem, Tom Quigley
Risk & Sustainability	Darran Messem	Philip Holland, Ann Markey, Tom Quigley
Remuneration	Tom Quigley	Philip Holland, Darran Messem
Nomination & Governance	Philip Holland	Darran Messem, Henrik Wareborn

Philip Holland
Chairman

Financial Review

Revenues
The Company recognised revenue of £8.2m for the six months ended 30 June 2021 (HY2020: £0.2m). The revenue primarily comprised sales of reactors and catalyst, and licensing fees earned from our first major commercial client contract which commenced in 2018. The Company satisfied the performance obligations within the contract in 2021 following the expiry of all contractual obligations and therefore determined that it was appropriate to recognise the revenue and the associated cost of goods in the six months ended 30 June 2021. The Company also provided engineering services in Japan and recorded £0.1m in respect of this work. Overall, the gross profit for the six months ended 30 June 2021 was £3.3m (HY2020: £0.1m).

Operating expenses
Operating expenses for the six months ended 30 June 2021 at £5.4m were 91% higher versus HY2020 (HY2020: £2.8m) due to the stage of development of the Company's two reference projects. The expenses incurred on the Bayou Fuels project are higher in the first half of 2021 compared to the prior period, as the project completed pre-FEED technical development and is now preparing towards securing financing for the FEED stage. The Altalto project was profit neutral for the six months to June 2020 as all project expenditure was matched with a corresponding credit to the income statement as the funding contributed by the project partners was offset against the costs. In HY2021, a portion of the project costs have been incurred by Velocys.

Operating expenses also included a provision for late payment of receivables of £0.4m and unrealised foreign exchange losses of £0.3m, whilst in HY2020 an inventory provision of £0.1m was reversed. In combination, these movements affected the operating expenses by £0.8m.

Operating result
The operating loss for the six months to 30 June 2021 was £2.0m (HY2020: £2.6m).

Dividends
The Directors do not recommend an interim dividend for the six months to 30 June 2021 (HY2020: £nil).

Net assets and cash
The net assets of the Company were £11.6m at 30 June 2021 (31 December 2020: £13.1m). The decrease was principally the result of a £4.7m decrease in cash and cash equivalents as a result of funding the Company's ongoing operating activities. This was largely offset by a decrease in deferred revenue and corresponding deferred costs totalling £3.0m.

The Company used £4.8m of cash in the six months to 30 June 2021 comprising expenditure on operating activities of £4.1m (HY2020: £3.0m), the purchase of capital assets of £0.4m (HY2020: £0.7m) and £0.3m outflow on financing activities (HY2020: £0.5m inflow due to new borrowings). The Company continues to carefully manage its underlying cost base and spend prudently on the implementation of its reference projects. The £0.5m of borrowings comprising the US SBA loan (see note 14) have been "forgiven" in July 2021 and are therefore non-repayable.

The Company incurs a significant proportion of its expenses in US dollars and has exposure to the US dollar to GBP 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 revenue is invoiced in US dollars.

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 released a total of £8.1m of deferred revenue to the income statement during the six months to 30 June 2021, as the performance obligations within the customer contract in respect of the supply of reactors and catalyst had been met.

Funding
The Company continuously forecasts its cash requirements and anticipates raising additional capital in due course, well in advance of requirements to support the acceleration of its commercial strategy. Based on the Company's latest forecast and cash flow projections, additional funding will be required within the next twelve months.

Going concern
As discussed in note 1 below, the Company has prepared these condensed consolidated interim financial statements on a going-concern basis.

The forecasts show that the Company will require additional external funding within the 12-month forecast period to be able to continue as a going concern. This funding may be achieved from one or a combination of a capital raising (including the possibility of a placement of ordinary shares within the next twelve months) or the realisation of certain assets; selling additional technology licences; performing pre-FEED engineering work for customers; UK or US government loans or grants; and selling non-core intellectual property.

The directors are confident that the funding required for the Company to continue as a going concern will be secured within a period of 12 months and have therefore prepared the condensed consolidated interim financial statements on a going concern basis. However, as at the date of announcing the condensed consolidated interim financial statements no additional funding is committed. Should additional funding not be secured within 12 months from the date of announcing these condensed consolidated interim financial statements, the Company would not be a going concern. As such, these conditions indicate the existence of a material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern.

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

Principal risks and uncertainties

The Company has continued to maintain its framework and processes to identify, assess and manage risks. The principal risks and uncertainties which we consider to have a potentially material impact on the Company's long-term performance and delivery of strategy are detailed on pages 23 to 26 of our Annual Report and Accounts 2020, and remain our key risk factors for the six months ended 30 June 2021.

The COVID-19 pandemic has exacerbated some of the short-term risks facing the business and particularly in relation to our key personnel and suppliers. The prolonged duration of the pandemic driven by waves of variants has caused the Company to keep its COVID-19 response continually under review, and our dedicated COVID-19 response committee has met regularly to assess the safety of employees attending both the Company's and third party sites.

No new principal risks were identified through the risk assessment processes and discussions across the business in the six months ended 30 June 2021. We recently announced the formation of a new Risk and Sustainability Committee, to work alongside our Audit committee which will allow an increased focus on managing the risks associated with climate change and other environmental factors.

Condensed consolidated income statement

for the six months ended 30 June 2021

	Note	**6 months ended 30 June 2021 £'000**	6 months ended 30 June 2020 £'000
Revenue	4	8,237	180
Cost of sales		(4,895)	(106)
Gross profit		3,342	74
Operating expenses		(5,384)	(2,821)
Other income	5	-	115
Operating loss		(2,042)	(2,632)
Finance income	6	-	5
Finance costs	7	(180)	(92)
Net finance costs		(180)	(87)
Loss before income tax		(2,222)	(2,719)
Income tax credit	8	396	-
Loss for the period attributable to the owners of Velocys plc		(1,826)	(2,719)
Loss per share attributable to the owners of Velocys plc			
Basic and diluted loss per share (pence)	9	(0.17)	(0.42)

Condensed consolidated statement of comprehensive income

for the six months ended 30 June 2021

	6 months ended 30 June 2021 £'000	6 months ended 30 June 2020 £'000
	Total	Total
Loss for the period	(1,826)	(2,719)
Other comprehensive (expense)/income		
Items that may be reclassified to the income statement in subsequent periods		
Foreign currency translation differences	183	(640)
Total comprehensive (expense)/income for the period attributable to the owners of Velocys plc	(1,643)	(3,359)

Condensed consolidated statement of financial position

as at 30 June 2021

	Note	**30 June 2021 £'000**	31 December 2020 £'000
Assets			
Non-current assets			
Intangible assets	10	941	740
Property, plant and equipment	11	1,267	1,479
Right-of-use asset		520	653
		2,728	2,872
Current assets			
Inventories	12	951	970
Trade and other receivables	13	621	6,182
Current income tax asset		1,207	810
Cash and cash equivalents		8,349	13,051
		11,128	21,013
Total assets		13,856	23,885
Liabilities			
Current liabilities			
Trade and other payables		(789)	(932)
Lease liability		(451)	(470)
Borrowings	14	(512)	(152)
Other liabilities	15	–	(474)
Deferred revenue	16	–	(7,774)
		(1,752)	(9,802)
Non-current liabilities			
Lease liability		(132)	(270)
Borrowings	14	–	(371)
Deferred revenue	16	(362)	(382)
		(494)	(1,023)
Total liabilities		(2,246)	(10,825)
Net assets		11,610	13,060
Capital and reserves attributable to owners of Velocys plc			
Called up share capital	18	10,658	10,642
Share premium account	18	199,733	199,701
Merger reserve		369	369
Share-based payments reserve		16,490	16,345
Foreign exchange reserve		3,221	3,038
Accumulated losses		(218,861)	(217,035)
Total equity		11,610	13,060

The condensed consolidated interim financial statements were approved by the Board of directors and authorised for issue on 22 September 2021. They were signed on its behalf by:

Henrik Wareborn
Chief Executive Officer

Company number 05712187

Condensed consolidated statement of changes in equity

for the six months ended 30 June 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 2021	10,642	199,701	369	16,345	3,038	(217,035)	13,060
Loss for the period	–	–	–	–	–	(1,826)	(1,826)
Other comprehensive income							
Foreign currency translation differences	–	–	–	–	183	–	183
Total comprehensive expense	–	–	–	–	3,221	(1,826)	(1,643)
Transactions with owners							
Share-based payments – value of employee services	–	–	–	145	–	–	145
Proceeds from options exercised	16	32	–	–	–	–	48
Total transactions with owners	16	32	–	145	–	–	193
Balance at 30 June 2021	10,658	199,733	369	16,490	3,221	(218,861)	11,610

	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 period	–	–	–	–	–	(2,719)	(2,719)
Other comprehensive expense							
Foreign currency translation differences	–	–	–	–	(640)	–	(640)
Total comprehensive expense	–	–	–	–	(640)	(2,719)	(3,359)
Transactions with owners							
Share-based payments – value of employee services	–	–	–	188	–	–	188
Total transactions with owners	–	–	–	188	–	–	188
Balance at 30 June 2020	6,438	184,256	369	16,413	2,649	(210,959)	(834)

Condensed consolidated statement of cash flows

for the six months ended 30 June 2021

	Note	**6 months ended 30 June 2021 £'000**	6 months ended 30 June 2020 £'000
Cash flows from operating activities			
Operating loss		(2,042)	(2,632)
Depreciation and amortisation		638	593
Share-based payments		145	188
Changes in working capital (excluding the effects of exchange differences on consolidation)			
Trade and other receivables		5,593	(3,964)
Trade and other payables		(144)	302
Other liabilities	15	(474)	(678)
Deferred revenue	16	(7,795)	1,491
Inventory		-	1,748
Cash consumed by operations		(4,079)	(2,952)
Tax credits received		-	-
Net cash used in operating activities		(4,079)	(2,952)
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(131)	(557)
Purchase of intangible assets	10	(284)	(249)
Proceeds from the sale of patents	5	-	53
Interest received	6	-	5
Net cash used in investing activities		(415)	(748)
Cash flows from financing activities			
Proceeds from exercise of share options		48	-
Principal elements of lease payments		(279)	(83)
Interest paid	7	(63)	(5)
Proceeds from borrowings	14	-	578
Net cash generated from financing activities		(294)	490
Net decrease in cash and cash equivalents		(4,788)	(3,210)
Cash and cash equivalents at beginning of period		13,051	4,797
Exchange movements on cash and cash equivalents		86	(771)
Cash and cash equivalents at end of period		8,349	816

Notes to the condensed consolidated interim financial statements
For the six months ended 30 June 2021

1. General information, basis of preparation and accounting policies
Velocys plc is a company incorporated in England and Wales and domiciled in England. It operates through a number of subsidiaries in the UK and the US, and collectively they are referred to in these condensed consolidated interim financial statements as the "Company" or "Velocys", with Velocys plc as "Velocys plc" or the "parent company. The parent company's securities are traded on the Alternative Investment Market ("AIM") of the London Stock Exchange under the symbol "VLS".

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Company transitioned to UK-adopted International Accounting Standards in its consolidated financial statements for the year ended 31 December 2020. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2021 has been prepared in accordance with the UK-adopted International Accounting Standard 34, 'Interim Financial Reporting'.

The interim report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2020, which has been prepared in accordance with both "International Accounting Standards in conformity with the requirements of the Companies Act 2006" and "International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union", and any public announcements made by Velocys plc during the interim reporting period."

Accounting policies
The condensed consolidated interim financial statements for the half-year period ended 30 June 2021 have been prepared using the same accounting policies adopted in the Company's financial statements for the year ended 31 December 2020.

There were no new standards, interpretations or amendments to published standards effective in the period which had a significant impact on the Company.

Judgements and estimates
In preparing these condensed consolidated 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 2020.

Going Concern
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 over the next twelve months from the date of issuing these condensed consolidated interim financial statements.

The forecasts show that the Company requires additional external funding within the 12-month forecast period to be able to continue as a going concern.

This funding may be achieved from one or a combination of a capital raising (including the possibility of a placement of ordinary shares within the next twelve months) or the realisation of certain assets; selling additional technology licences; performing pre-FEED engineering work for customers; UK or US government loans or grants; and selling non-core intellectual property.

The directors are confident that the funding required for the Company to continue as a going concern will be secured within a period of 12 months and have therefore prepared the condensed consolidated interim financial statements on a going concern basis. However, as at the date of announcing the condensed consolidated interim financial statements no additional funding is committed. Should additional funding not be secured within 12 months from the date of announcing these condensed consolidated interim financial statements, the Company would not be a going concern. As such, these conditions indicate the existence of a material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern.

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

New and amended standards
As disclosed on pages 58 and 59 of the Company's Annual Report and Accounts 2020 there are a number of new standards, amendments to standards and interpretations which have been issued by the International Accounting Standards Board that are effective in future accounting periods that the Company has decided not to adopt early.

The Company does not believe that these to be relevant to the condensed interim financial statements or to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

2. Publication of non-statutory accounts

These condensed interim financial statements 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 2020 were approved by the Board of Directors on 14 May 2021 and delivered to the Registrar of Companies. The comparative figures for the year ended 31 December 2020 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. Segmental information

Business segments
The Company has one operating segment as the business comprises a single activity, which is the design, development, marketing and sale of technology for the production of sustainable transport fuels.

Geographic segments
The Company's operating segment operates in two main geographical areas. Revenue is allocated based on the country in which the customer is located.

	6 months ended 30 June 2021 £'000	6 months ended 30 June 2020 £'000
Americas	8,130	27
Asia Pacific	107	153
Total revenue	8,237	180

4. 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 is 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 bound by the performance obligations of that sale.

If the Company 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 Company 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 subject to a performance test run in 2021 or performance obligations which expire under the terms of the contract in 2021 if the test is not completed. This has been assessed as a combined performance obligation and it was determined that the above criteria have now been met as of 30 June 2021. As such, all consideration that was previously deferred has been recognised as revenue in the six months ended 30 June 2021.

Critical estimates and judgements
Determining whether the 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 Company 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 transaction 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.

	6 months ended 30 June 2021 £'000	6 months ended 30 June 2020 £'000
FT reactor, catalyst and licence	8,130	68
Engineering services	107	112
Total	8,237	180

FT reactor, catalyst and licence revenue was recognised at a specific point in time during the six months ended 30 June 2021 when the performance obligations under the specific contract were met. Revenue from engineering services provided to a customer in Japan, was recognised on a time and materials basis during the period in which the services were delivered.

5. Other income

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

	6 months ended 30 June 2021 £'000	6 months ended 30 June 2020 £'000
Profit on sale of fixed assets	–	53
Release of aged deposit received	–	77
Foreign exchange movement	–	(15)
Total	–	115

6. Finance income

	6 months ended 30 June 2021 £'000	6 months ended 30 June 2020 £'000
Interest income on bank deposits	–	5
Total	–	5

7. Finance costs

	6 months ended 30 June 2021 £'000	6 months ended 30 June 2020 £'000
Interest on lease liabilities	63	83
Interest on borrowings	–	5
Foreign exchange losses	117	4
Total	180	92

8. Income tax credit

Due to the availability of losses incurred in the period, there is no charge to corporate tax. The Company recognised £396,000 for estimated R&D tax credits for the six months ended 30 June 2021 (HY1 2020: £nil). The estimate is prepared on an accruals basis, and is based on an assessment of the Company's projects, to determine which ones qualify under HMRC rules, and to estimate the level of allowable cost within each, based on the nature of the costs. In 2020, this assessment was only performed at the year end.

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 period.

	6 months ended 30 June 2021	6 months ended 30 June 2020
Loss attributable to owners of Velocys plc (£'000s)	(1,826)	(2,719)
Weighted average number of ordinary shares in issue ('000)	1,064,635	643,756
Basic and diluted loss per share (pence)	(0.17)	(0.42)

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

Goodwill

Goodwill is stated at cost less impairments. Goodwill is deemed to have an indefinite useful 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 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. For the six months ended 30 June 2021, the Company did not abandon any non-core patents (HY2020: loss on disposal 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 licence 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 purposes 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 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.

In assessing whether there is any indication that an asset may be impaired or whether a reversal of prior period impairments is required, the Company considers a number of indicators:

- Whether the carrying amount of the Company's net assets was above or below Velocys plc's market capitalisation value;
- 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.

The Company did not impair or reverse any impairment to its intangibles for the six months ended 30 June 2021 (31 December 2020: £nil).

	Goodwill	In-process technology	Patents, licences and trademarks	Software	Total
6 months ended 30 June 2021	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2021	7,398	23,681	1,971	96	33,146
Additions	–	–	284	–	284
Sale of patent	–	–	–	–	–
Foreign exchange movement	–	–	(21)	–	(21)
At 30 June 2021	7,398	23,681	2,234	96	33,409
Accumulated amortisation and impairment					
At 1 January 2021	7,398	23,681	1,231	96	32,406
Charge for the year	–	–	79	–	79
Foreign exchange movement	–	–	(17)	–	(17)
At 30 June 2021	7,398	23,681	1,293	96	32,468
Net book amount					
At 30 June 2021	–	–	941	–	941

31 December 2020	Goodwill £'000	In-process technology £'000	Patents, licences 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 deprecation 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.

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 asset's carrying value does not exceed that which would have been determined, net of depreciation, if no impairment had been recognised.

Expenditure funded by research partners is only capitalized 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.

6 months ended 30 June 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	–	–	131	131
Disposals	–	–	(268)	(268)
Foreign exchange movement	–	(23)	(174)	(197)
At 30 June 2021	–	1,198	8,996	10,194
Accumulated depreciation and impairment				
At 1 January 2021	–	1,074	7,975	9,049
Charge for the year	–	–	315	315
Disposals	–	–	(268)	(268)
Foreign exchange movement	–	(21)	(148)	(169)
At 30 June 2021	–	1,053	7,874	8,927
Net book amount				
At 30 June 2021	–	145	1,122	1,267

31 December 2020	Assets under construction £'000	Land £'000	Plant and machinery £'000	Total £'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 movement	–	(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	32,406
Charge for the year	–	–	500	500
Foreign exchange movement	–	(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

Disposals in the six months ended 20 June 2021 are in respect of fully depreciated assets no longer in use.

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.

	30 June 2021 £'000	31 December 2020 £'000
Raw materials and consumables	330	336
Work in progress	44	45
Finished good	577	589
Total	951	970

Raw material and consumables consist of material that will be consumed in the manufacturing of reactors and catalyst. Work in progress consists of labour associated with the manufacturing of reactors.

At 30 June 2021, the Company had a total inventory provision of £640,000 (31 December 2020: £653,000) relating to slow moving inventory.

13.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. Trade receivables, in general, are collected within 45 days of invoice date.

Trade receivables at 30 June 2021 are shown net of an expected credit loss provision of £336,000 (31 December 2020: $nil) which relates to an outstanding licence fee invoice with immediate payment terms.

Deferred costs at 31 December 2020 were in respect of a customer contract. During the six months ended 30 June 2021, the deferred costs and the revenue to which they relate, were recognised in the income statement.

	30 June 2021 £'000	31 December 2020 £'000
Trade receivables	–	110
Deferred costs	–	4,947
Prepaid costs	466	531
Grants receivable	–	290
Other receivables	155	304
Total	621	6,182

14.Borrowings

Borrowings comprise a loan received from the Small Business Administration ("SBA") under the Pay-check Protection Program as part of a US Federal Government stimulus package to support small businesses in the US during the COVID-19 crisis. This unsecured loan was awarded to support Velocys' US payroll costs in the short-term. It is an unsecured loan with a 2-year maturity and a fixed rate of interest of 0.98%. No interest or principal payments are due in the first six months. The loan is however eligible for "forgiveness", becoming non-repayable upon application by Velocys after 60 days from receipt if used for retaining US employees and maintaining US payroll costs of at least this amount in the period until the end of June 2020.

The loan was formerly forgiven in July 2021 and hence will not be repayable.

15.Other liabilities

Other liabilities are comprised of contract liabilities related to the development funding received from industry partners in respect of the Altalto project, being £nil at 30 June 2021 (31 December 2020: £474,000).

16. Deferred revenue

Deferred revenue consists of contract liabilities resulting from instances in which the Company receives payments from customers 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's contracts can require significant judgment.

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

£'000	**Catalyst**	**Reactor**	**Licence**	**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
Revenue recognised in the period	(3,186)	(3,409)	(1,535)	(8,130)
At 30 June 2021	–	362	–	362

During the six months ended 30 June 2021, the Company recognised revenue of £8,130,000 in respect of a customer contract as the performance obligations were met. The final portion of the licence fee due under the contract was invoiced in June 2021.

17. Financial instruments

Details of the classification of financial assets and financial liabilities following the guidance in IFRS 9 and the Company's exposure to various risks associated with the financial instruments is disclosed on pages 78 to 80 of the Company's Annual Report and Accounts 2020.

The detail of the Company's financial instruments at 30 June 2021 and 31 December 2020 by nature and classification for measurement purposes is as follows:

At 30 June 2021	Financial assets			
	Amortised cost	Fair value through OCI	Fair value through income statement	Total carrying amount
	£'000	£'000	£'000	£'000
Trade receivables	–	–	–	–
Cash and cash equivalents	8,349	–	–	8,349
Total	8,349	–	–	8,349

At 31 December 2020	Financial assets			
	Amortised cost	Fair value through OCI	Fair value through income statement	Total carrying amount
	£'000	£'000	£'000	£'000
Trade receivables	110	–	–	110
Cash and cash equivalents	13,051	–	–	13,051
Total	13,161	–	–	13,161

At 30 June 2021	Financial liabilities			
	Amortised cost	Fair value through OCI	Fair value through income statement	Total carrying amount
	£'000	£'000	£'000	£'000
Borrowings	512	–	–	512
Trade and other payables excluding non-financial	303	–	–	303
Accruals	416	–	–	416
Lease liabilities	583	–	–	583
Total	1,814	–	–	1,814

At 31 December 2020	Financial liabilities			
	Amortised cost	Fair value through OCI	Fair value through income statement	Total carrying amount
	£'000	£'000	£'000	£'000
Borrowings	523	–	–	523
Trade and other payables excluding non-financial	360	–	–	360
Accruals	541	–	–	541
Lease liabilities	740	–	–	740
Total	2,164	–	–	2,164

18. 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 £'000
At 1 January 2020	643,756	6,438	184,256
Proceeds from share issues	420,000	4,200	16,800
Expenses of share issues	–	–	(1,363)
Proceeds from options exercised	400	4	8
At 31 December 2020	1,064,156	10,642	199,701
Proceeds from options exercised	1,600	16	32
At 30 June 2021	1,065,756	10,658	199,733

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

19. Related parties
Two of the Company's directors purchased ordinary shares of the Company during the period ended 30 June 2021 (HY2020: nil). Mr. Henrik Wareborn, Chief Executive Officer, purchased 200,000 ordinary shares at a price of 5.45 pence on 17 May 2021 and therefore holds approximately 0.2% of the Company's issued share capital. Mr. Andrew Morris, Chief Financial Officer, purchased 200,000 ordinary shares at a price of 5.35 pence on 18 May 2021 and therefore holds approximately 0.1% of the Company's issued share capital.

20. Post period end events

US SBA loan forgiveness application
In April 2020, the Company received a $709,000 (£512,000) loan from the Pay-check Protection Program awarded by the Small Business Administration ("SBA"), a US Federal Agency. The SBA program is part of the Federal stimulus package known as the CARES (Coronavirus Aid, Relief and Economic Security) Act to offer help to small businesses in the USA during the COVID-19 crisis. This loan was awarded to support Velocys' US payroll costs in the short-term. It is an unsecured loan with a 2-year maturity and 0.98% interest. No interest or principal payments are due in the first six months.

The loan is however eligible for "forgiveness" becoming non-repayable upon application by Velocys after 60 days from receipt if used for retaining US employees and maintaining US payroll costs of at least this amount in the period ended 30 June 2020. The Company received notification in July 2021 that the loan was granted full forgiveness and is therefore under no obligation to repay the principal or interest.

Green Fuels Green Skies grant award
In August 2021, the Company was awarded a grant of up to £2.4m for the Altalto project under the UK government's Green Fuels Green Skies competition, to advance the development of this critical waste conversion facility for the UK for the next 7 months. £1.2m of the grant is subject to progress by the Department for Transport in developing policy support for sustainable aviation fuels.

Independent review report to Velocys plc
Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Velocys plc's condensed consolidated interim financial statements (the "interim financial statements") in the Interim results for the six months ended 30 June 2021 of Velocys plc for the 6 month period ended 30 June 2021 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the AIM Rules for Companies.

Emphasis of matter

Without modifying our conclusion on the interim financial statements, we have considered the adequacy of the disclosure made in note 1 to the interim financial statements concerning the Company's ability to continue as a going concern. Due to the nature of the Company's activities, and based on the forecasts prepared by management, the Company needs to secure additional external funding within 12 months from the date of approval of the financial statements in order to continue as a going concern. At the time of the approval of the interim financial statements no such funding is committed.

These conditions, along with the other matters explained in note 1 to the interim financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The interim financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

What we have reviewed

The interim financial statements comprise:

- the condensed consolidated statement of financial position as at 30 June 2021;
- the condensed consolidated income statement and condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated statement of cash flows for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Interim results for the six months ended 30 June 2021 of Velocys plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the AIM Rules for Companies.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim results for the six months ended 30 June 2021, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Interim results for the six months ended 30 June 2021 in accordance with the AIM Rules for Companies which require that the financial information must be presented and prepared in a form consistent with that which will be adopted in the company's annual financial statements.

Our responsibility is to express a conclusion on the interim financial statements in the Interim results for the six months ended 30 June 2021 based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the AIM Rules for Companies and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim results for the six months ended 30 June 2021 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Reading
22 September 2021