News release

Velocys plc

("Velocys" or "the Company")

18 May 2023

Unaudited Preliminary Results for the year ended 31 December 2022
Creating a Platform for Growth with the Achievement of Key Milestones

Velocys, the sustainable fuels technology company, is pleased to announce its unaudited preliminary results for the year ended 31 December 2022 ("FY22"). During 2022, Velocys saw the achievement of a number of key milestones which put the Company in a strong position to continue with the commercialisation phase of its growth strategy.

2022 Financial Highlights

- Revenue of £0.2 million from engineering services (2021: £8.3 million from licensing and reactor sales[1]).
- Administrative expenses of £16.3 million (2021: £13.3 million).
- Operating loss of £14.5 million (2021: £9.0 million).
- Net loss of £13.2 million (2021: £8.4 million)
- Net assets of £16.7 million at 31 December 2022 (2021: £29.7 million).
- Net cash at year end of £13.4 million (2021: £25.5 million).

(1) The revenue recognised in FY21 represented the completion of a multi-year contract to deliver reactors and catalyst to the Company's first major commercial customer located in the US.

Operational Highlights (including post period end events)

Business scale-up and delivery

- Construction completed at the new 52,000 sq. ft. reactor core manufacturing facility in Columbus, Ohio, with fit-out being completed during HY1 2023. 15-year lease agreed (commencing in May 2023), with Velocys contributing $2.0 million (£1.7 million) for construction, with the remaining $8.0 million (£6.7 million) contributed by the developer.
- Appointment of new Chief Financial Officer, Senior VP Business Development and Technology Delivery, and new VP Engineering together with a number of key technical and engineering roles.
- Establishment of a Scientific Advisory Board for catalysis.
- Provision of technical and engineering services to commercial clients in Europe and Japan.
- Continued investment in patents protecting the Company's extensive intellectual property portfolio.

Favourable regulatory developments

- Landmark US Inflation Reduction Act of 2022 created strong incentives to accelerate the deployment of sustainable aviation fuel ("SAF") technologies including by providing tax credits for every gallon of qualifying SAF produced in the US - based on lifecycle greenhouse gas emission reduction percentages.
- UK Government's Net Zero Strategy included developing a mandate for at least 10% SAF by 2030 and an objective of five commercial-scale plants to be in construction by 2025. A second consultation seeking stakeholder views on the detailed design of the mandate is underway and closes in June 2023.
- UK Advanced Fuels Fund ("AFF") launched to accelerate projects through their Front-End Engineering and Design ("FEED") phase and reaching financial investment decision ("FID") for construction.
- The European Commission's ReFuelEU Aviation sustainable air transport initiative, setting out minimum obligations upon fuel suppliers to increase the share of SAF in the fuel supplied to operators at EU airports, gained political agreement in April 2023 and now requires adoption by the European Parliament and the Council.

Bayou Fuels Project (US)

- Further optimisation of the Natchez Mississippi plant design incorporating a biomass boiler and carbon sequestration, enabling the delivery of industry leading negative carbon intensity SAF.
- The offtake arrangements secured in 2021, covering 100% of the SAF to be produced at the plant and important to future investors into the project, were updated to reflect the Inflation Reduction Act and subsequent guidance on the details of the tax credits.
- Levee construction commenced, a key milestone for insurance and de-risking of the Natchez site, which is expected to be completed in Q4 2023.

Altalto Immingham Project (UK)

- Long term control of the 78-acre Immingham site secured through a financing arrangement with Foresight Group LLP, with an option to repurchase in up to 36 months from March 2022.
- Completion of pre-FEED project milestones supported by the Green Fuels Green Skies grant awarded in FY21.
- Award of a grant of up to £27.0 million under the AFF to deliver the FEED phase of the project. The matched funding requirement of £27.0 million included letters of intent from existing and new partners, and Velocys (post year-end) plans to launch project financing with the support of a leading global investment bank to raise the balance of development capital required for this project phase, which runs to March 2025.

e-Alto Project

- £2.5 million grant awarded under the AFF competition to support a new e-fuels project. E-fuels, also referred to as third generation SAF, are produced from CO_2 (point source or direct air capture) as their main carbon source.

Post period end events

- Velocys entered into a Master Relationship Agreement ("MRA") and Altalto Immingham FEED contract with Bechtel Limited, one of the world's most respected engineering companies. The MRA and FEED contract, instrumental in delivering the next important milestones for the Bayou Fuels and Altalto Immingham reference projects, include the objective of developing a viable engineering, procurement and construction ("EPC") execution model for sustainable fuel plants.
- Velocys has appointed a leading global investment bank to assist with, and advise on, the delivery of development capital into the two reference projects.
- The Company has today announced the launch of a fundraise comprising a placing, retail offer, open offer, a conditional issuance of convertible loan notes to Carbon Direct Capital and potential further issuances of convertible loan notes and/or new ordinary shares to investors other than Carbon Direct Capital. The fundraise aims to raise a minimum of £32 million (before expenses), of which the placing, retail offer and open offer are expected to raise approximately £8 million (before expenses). An accelerated bookbuild process for the placing is expected to raise a minimum of approximately £6 million (before expenses), with the result of the placing expected to be announced on 19 May 2023 and the process scheduled to complete on 9 June 2023, provided the necessary approvals from the Company's shareholders are obtained at a General Meeting of the Company's shareholders expected to be held on 8 June 2023. The retail offer and open offer are for up to £0.5 million and £2.0 million respectively.

Henrik Wareborn, CEO of Velocys, said:

"This has been a transformational year for Velocys, during which we have put in place key operational building blocks which will enable us to move towards full commercialisation. We have achieved key milestones at both our US and UK reference projects, supported by top tier partners and policy incentives. We are engaged in scaling up the business to meet client requirements, with the appointment of key finance and business development personnel. And we are highly encouraged by the favourable legislative developments in both the US and the UK, which provide strong financial and political support for the production of SAF.

"We have today announced a placing, retail offer and open offer, supported by the conditional commitment from a leading carbon tech investor, Carbon Direct Capital, to subscribe for convertible loan notes. This fundraise will provide the capital we need to scale-up the business and move fully into our commercialisation phase.

"We are very excited about what the future holds for Velocys, as we continue to lead at the forefront of decarbonising aviation and helping industry towards a greener and more sustainable future."

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.

For further information, please contact:

Velocys
Henrik Wareborn, CEO
Philip Sanderson, CFO
+44 1865 800821

Panmure Gordon (UK) Limited (Nomad and Joint Broker)
Hugh Rich (Corporate Broking)
Emma Earl (Corporate Finance)
John Prior (Corporate Finance)
+44 20 7886 2500

Shore Capital Stockbrokers Limited (Joint Broker)
Henry Willcocks (Corporate Broking)
Toby Gibbs (Corporate Advisory)
James Thomas (Corporate Advisory)
+44 20 7408 4090

Radnor Capital (Investor Relations)
Joshua Cryer
Iain Daly
+44 20 3897 1830

Buchanan (Financial PR)
Helen Tarbet
Simon Compton
+44 7872 604 453
+44 7979 497 324
velocys@buchanan.uk.com

Notes to Editors

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

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

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

www.velocys.com

Chairman's Statement

2022, with the airline industry recovering from the impact of the COVID-19 pandemic, proved to be another extraordinary year. Inflation rates, including in the UK and US, reached a 40-year high, and Russia's invasion of Ukraine not only inflicted devastation on the country and its people, but also led to volatility in energy and financial markets, as well as heightening costs and uncertainty for businesses around the world.

Nevertheless, the world's focus on mitigating climate change, setting sustainability goals and support for reducing aviation emissions has not wavered, and 2022 saw a number of key regulatory developments which we were very pleased to see come to fruition after several years under discussion.

I am pleased that, despite the challenging market conditions, Velocys has, once again, delivered on some key milestones. Employee engagement remains high, and we continue to invest for long term growth in our technology, our people and in our manufacturing capability. On behalf of the Board, I would like to thank our employees for their hard work and commitment to the Company. Their focus and resilience have enabled Velocys to navigate the economic volatility and finish the year in a good position to move forward with our technology commercialisation plans.

POLICY DEVELOPMENTS
August saw a critical legislative development in the US when the Inflation Reduction Act of 2022 ("the Act") was passed into law. The legislation allocates approximately $369 billion to reducing greenhouse gas emissions and incentivises expanded production and use of domestic clean energy. Sustainable Aviation Fuel ("SAF") tax credits are an integral part of the Act, together with other incentives and mechanisms to accelerate the deployment of advanced fuel technologies, generating non-fossil fuels with a significantly reduced carbon intensity.

We believe this landmark legislation represents a compelling model which other governments will seek to follow, in particular in its focus on total amount of avoided carbon instead of volume of sustainable fuel supplied, thus prioritising those technologies which offer routes to negative carbon intensity fuels, such as our Bayou Fuels reference project.

Whilst the US legislation was pending, the team continued to enhance the attractiveness of the Bayou Fuels project ahead of launching third party project funding in 2023. In November we announced that the Bayou Fuels project had been re-optimised for maximum decarbonisation, thus setting a new benchmark for carbon savings with a significantly improved negative carbon intensity score of -375g CO_2e/MJ (previously -144g CO_2e/MJ); abating the carbon emissions from the equivalent of 1.1 million return trips from San Francisco to London per annum. The project is now designed to use renewable energy derived from sustainable biomass power instead of solar power.

The significant improvement in negative carbon intensity will allow the Bayou Fuels project to derive the maximum benefit from the 45z tax credits under the Act. This, combined with the offtake arrangements already in place with Southwest Airlines and IAG accounting for in aggregate 100% of the SAF produced, enhances and derisks the economic profile of the project.

The UK Government's Department for Transport launched its Jet Zero Strategy, setting out the Government's approach for achieving net zero aviation by 2050. This included an ambition for a minimum of five commercial scale SAF plants to be under construction in the UK by 2025, and a mandate for the equivalent of at least 10% SAF to be blended into conventional aviation fuel by 2030. Importantly, the UK mandate is to be expressed in terms of greenhouse gas reductions, rather than simple volume, which will benefit our Altalto Immingham reference project due to its ultra-low carbon intensity.

The strategy launch was followed up with the announcement of a £165 million Advanced Fuels Fund competition providing grants to support the completion of front-end engineering and development phase of commercial-scale SAF plants, enabling them to advance to the stage of being ready for investment decision required for construction. The Altalto Immingham project, which had already secured long term control of the Immingham site in North East Lincolnshire in March 2022 (for which planning permission has previously been granted), was successful with the largest award of a grant of up to £27 million.

The grant provides approximately 50% of the funding required to complete the FEED phase by March 2025. With the appointment by Velocys of a leading international investment bank, the total matched funding requirement of £27 million is expected to be finalised during the second half of 2023.

Therefore, our strategic priority to advance the two reference projects as key enablers for showcasing our technology in a long-term commercial setting has really come together during 2022. The engagement with Bechtel, one of the most experienced and respected engineering companies in the world, is a huge vote of confidence in Velocys' technological capabilities and I look forward to our collaboration in the years ahead. For our clients, this provides a scalable deployment model with tangible global reach.

BOARD CHANGES

We are delighted to have appointed Philip Sanderson as CFO and executive director of the Company in June 2022. Philip, who brings over 30 years of international experience in financial and commercial leadership from Shell plc, has first-hand experience of large-scale project financing. I would like to acknowledge the efforts and contributions of our outgoing CFO, Andrew Morris, who stood down from the Board in June 2022. Andrew has played a key role in strengthening and consolidating the finance function of the Company, and the Board is grateful for his service and his commitment.

SENIOR MANAGEMENT APPOINTMENTS

Andy Bensley joined us in February 2022 as SVP Business Development and Technology Delivery and is a member of our management team and based in Oxford. He has 35 years of international expertise in international oil companies and EPC contractor organisations.

Darren Sanders joined us in September 2022 as VP Engineering based in our Houston office. Darren has 30 years of engineering and construction experience, holding diverse roles with responsibilities including process design, proposal and business development, and project management.

SCIENTIFIC ADVISORY BOARD

Reflecting the importance and commitment to our catalysis expertise developed over the past twenty years, this year the Board approved the establishment of our first Scientific Advisory Board ("SAB"), chaired by Dawid Duvenhage, VP Catalysis. When establishing the SAB, the Board ensured that the distinguished members brought a wide range of experience that will augment our internal capabilities and ensure we remain at the forefront of innovation in this field.

LOOKING AHEAD

As set out in the Financial Review, the Company requires additional external funding to be in a position to move forward with our growth plan. We also look forward to transitioning our reference projects as new investors take them forward and Velocys focuses on the key role of technology delivery.

Our commercial and business development function supported by the engineering team is focused on converting the accelerating number of customer enquiries into viable projects. Through established strategic alliances with our technology and engineering partners, we will be able to offer a highly competitive fully integrated end-to-end solution for converting sustainable non-fossil feedstocks into SAF.

Despite the excellent operational progress we have made in the past year to strengthen our organisation, bringing together staff, manufacturing facilities and our catalysis laboratory into a new build integrated technology centre in Ohio and increasing our business development and commercial capability, it would be inappropriate not to recognise the external headwinds facing the Company in bringing the two reference projects to FID status. The continued lack of finalised UK policy support poses specific challenges for Altalto, whilst the current volatility and weakness of the global capital markets will make future near-term project funding rounds more difficult.

We look forward to the conclusion of the UK Government's consultation process and finalised plans for the policy support necessary to kick-start a UK based SAF industry, in which Velocys' technology is well positioned to play a significant role. The Board is confident that the Company, under Henrik Wareborn's leadership, is well placed to execute our corporate strategy with the objective to deliver sustainable returns to our shareholders.

CEO’s Statement

Velocys provides a unique technology pathway enabling the economic production of drop-in sustainable aviation fuel, which can help to decarbonise the aviation industry without the need for any aircraft engine modification or change of fuelling systems at airports.

In addition to delivering environmental improvements as a cleaner burning fuel, there is also considerable potential to address national fuel security concerns whereby most countries without the natural resources to produce fossil fuels can leverage domestic sustainable feedstocks used for SAF.

With the highly favourable US climate legislation, the Inflation Reduction Act, implemented in the second half of 2022 and the launch of the UK Government’s Advanced Fuels Fund, Velocys’ clients are well positioned to benefit from the regulatory tailwinds which help underpin the economic viability of advanced SAF production.

PROGRESS MADE IN 2022

New reactor core manufacturing facility in Ohio

A key focus during the past year was to increase our patented reactor core manufacturing capacity, through investment in a new build facility in Columbus, Ohio. Previously, our reactor cores were produced at a third-party site using our custom-made equipment with oversight and quality assurance performed by Velocys personnel. At just over twelve months from site selection, I am pleased to report that the new 52,000 square foot facility is constructed, the internal fit-out is largely completed and the relocation from our existing Columbus facility is well underway.

The new facility has the capacity to produce 48 cores per year, sufficient for 12 reactors (the typical requirement for each client) which will unlock commercial revenues for Velocys’ core business which is technology licensing. Startup and commissioning of the reactor core manufacturing will take place during the second half of 2023.

Reference projects

Good progress was made on the Bayou Fuels reference project in Mississippi, US in preparation for the launch of the Series A financing for the project to enter the FEED phase. The carbon intensity of the biorefinery design was optimised through the provision of renewable power from biomass and carbon sequestration which significantly enhances the expected financial returns and takes advantage of the favourable legislative support legislated in the Inflation Reduction Act. A leading global investment bank has been engaged to launch the Series A financing in the second half of 2023. Velocys expects external long term capital partners to take Bayou Fuels into FID and construction upon completion of the FEED phase while converting Velocys’ development capital stake into a long-term royalty stream from the asset.

In the UK, the Altalto Immingham project also achieved some key milestones. In March 2022, Velocys secured long term control of the site by means of a financing arrangement with Foresight Group LLP with an option to repurchase. Foresight has a proven track record and history of investing in energy transition infrastructure.

They have also acquired an option to invest up to £100 million into the asset upon FID. Altalto Ltd has retained the right to access the land for maintenance and predevelopment activities associated with its existing planning permission.

In December 2022, Velocys secured the largest grant awarded under the UK Department for Transport’s Advanced Fuels Fund (“AFF”) for up to a maximum of £27 million for the Altalto project. The AFF prioritises first-of-a-kind commercial scale SAF plants that require additional financial support to reach the construction stage. The grant funding, which will be distributed over the grant period through to March 2025, will support Altalto to complete the FEED stage of the project, which will incorporate the integrated technology packages of the licensors (including Velocys) and develop the basis for the Engineering, Procurement and Construction (“EPC”) contract. The Company has obtained letters of intent from a number of existing and new potential partners for the private-sector matched funding requirement with the first tranche of funding in place during the first half of 2023.

Velocys also secured a separate grant of £2.5 million from the AFF for the concept development of e-fuels projects (where energy input is derived from renewable electricity via hydrogen). This e-fuels grant has been awarded to Velocys to assemble the technology package for an e-fuels project in the UK, in collaboration with a number of new and existing partners. E-fuels technology also require FT synthesis technology for conversion of hydrogen into liquid sustainable fuels.

Business development and client pipeline

The business development pipeline continues to grow, with a number of paid feasibility studies underway with both biorefinery and advanced power-to-liquid developers, as well as a significant increase in enquiries stimulated by strong policy incentives.

OUTLOOK

Velocys has signed a master relationship agreement ("MRA") and FEED agreement with Bechtel Limited ("Bechtel"), a leading global provider of engineering, construction and project management services, as our SAF project delivery partner to develop a viable EPC model, a centre of excellence model and to provide project engineering and other technical services to our clients, thereby accelerating the commercialisation strategy and significantly de-risking technology implementation.

Initially the collaboration is focusing on the Altalto Immingham and the Bayou Fuels reference projects together with the e-Alto power-to-liquids project in the UK. The MRA also covers other third-party clients that may be introduced by either Bechtel or Velocys globally. Under a separate continuing technical services agreement, Bechtel is providing technical services to support the development of Velocys' SAF client portfolio.

As detailed in the Financial Review, Velocys has announced a fundraise which comprises a placing, retail offer and open offer of the Company's ordinary shares on AIM. The Company has also received a conditional commitment from Carbon Direct Capital to subscribe for convertible loan notes which are structured to incentivise a US secondary listing of the Company, in addition to the current London listing.

The Board has been considering the merits of a US listing for some time, given Velocys' long history in the US and major investments there in assets and capabilities. I believe that a dual listing will improve our access to capital and liquidity which will allow us to accelerate our commercial strategy in due course.

We intend to use the net proceeds of the placing, the retail offer and the open offer for working capital whilst the proposed additional funding from the convertible loan notes and/or further issuances of new ordinary shares will allow us to significantly scale the business to enable commercial delivery. We have a highly scaleable business model, partnerships with some of the world's leading technology companies and airlines, and a growing business development pipeline.

THANK YOU

Our achievements in 2022 would not have been possible without the dedication, focus and commitment of our employees, and the support of our shareholders. I also want to personally thank our Chair, Philip Holland, and the Board for their invaluable support throughout the year.

Financial Review

During 2022, Velocys achieved a number of key milestones that put the Company in a strong position to progress the Altalto and Bayou Fuels reference projects whilst building the commercial pipeline and having the manufacturing capacity in place to support it.

We secured long-term control of the Immingham site for the Altalto reference project through a financing arrangement with Foresight Group LLP, were successful in our grant applications for Altalto and e-Alto projects for an aggregate of £29.5m and advanced the Bayou Fuels project to the point of being ready to launch a Series A funding for the development capital in mid-2023. The new reactor core manufacturing facility in Ohio has been completed and the lease commenced in May 2023.

REVENUES AND GROSS PROFIT
The Company recognised revenue of £0.2m (2021: £8.3m) for the year ended 31 December 2022. Annual revenues are expected to remain uneven in the short-term due to the growing but concentrated number of SAF projects in development whilst the market becomes more established. The 2022 revenue was in respect of engineering feasibility services provided during the year whereas the 2021 revenue was mainly the conclusion of a contract with our first major commercial client, which commenced in 2017, for the supply of reactors and catalyst, and associated licensing fees to operate the technology. The Company satisfied the performance obligations within the contract in June 2021 following expiry of all contractual obligations and therefore recognised the revenue and associated cost of goods in 2021. As a result, the gross profit for the year ended 31 December 2022 was £0.2m compared to £3.4m in the previous year.

EXPENSES
Administrative expenses for the year ended 31 December 2022, which include all company running costs and the costs incurred by the Company for engineering and project development services performed for the reference projects increased by 22% to £16.3m (2021: £13.3m).

Key components of administrative expenses were employee benefit expenses of £8.2m (2021: £6.3m), project engineering and consultancy costs of £3.2m (2021: £2.8m), depreciation and amortisation of £1.2m (2021: £1.1m) and other corporate running costs of £3.7m (2021: £3.1m).

Employee benefit expenses were £1.8m higher than in 2021, as in line with our commercial strategy, the Company has recruited a number of key leadership positions within the last two years. Therefore salary and benefit expenses for several employees that joined the Company part way through 2021, were included for the full year in 2022 in addition to the new employees hired during the past year. Including the executive directors, there was an average of 36 employees during 2022 (2021: 32).

The other main driver of operating expenses are the costs incurred with our technical support partners for engineering and related services on the Company's two reference projects. These totalled £3.7m in 2022 (2021: £3.7m). The reference projects are designed to accelerate the adoption of the Company's technology, and to the extent possible, the Company has secured co-development funding or applied for government grants available to support sustainable aviation fuel projects. The majority of costs incurred for the Altalto project during 2022 were supported by the Green Fuels Green Skies ("GFGS") grant (for which £1.7m is included in other income). In 2021, £0.7m of partner funding received under the Altalto co-development agreement was offset against costs. Bayou Fuels development costs are borne wholly by the Company.

OTHER INCOME
The Company recorded other income for the year ended 31 December 2022 of £1.6m which consisted of £1.5m of grant income from GFGS grant awarded to the Altalto project by the UK Department for Transport in 2021 and a £0.1m gain on disposal of assets related to the relocation of premises in Ohio. Other income in 2021 of £1.0m consisted of £0.5m from the forgiveness of a loan awarded under a US Federal Government stimulus package to support businesses during the COVID-19 crisis, £0.3m from the GFGS grant and £0.2m from the Future Fuels for Flight and Freight ("F4C") grant also awarded to the Altalto project by the UK Department for Transport.

OPERATING LOSSES

Operating losses were £14.5m (2021: £9.0m). The £5.5m increase is due to the higher level of gross profit recognised in 2021 and an increased level of operating activities during 2022.

NET ASSETS AND CASH

The net assets of the Company were £16.7m, which is a decrease of £13.0m compared to 2021. As at 31 December 2022, the Company had cash and cash equivalents of £13.4m (2021: £25.5m) and therefore the decrease in net assets is mainly due to the net cash outflow during the year.

Net cash outflow in 2022 was £12.2m, principally being cash generated from financing activities of £8.8m, attributed to £9.75m received from Foresight in March 2022 offset by lease payments, less £8.1m used in investing activities and £12.9m used in operating activities.

The net cash inflow to the Company in 2021 was £12.8m, principally being cash generated from financing activities of £24.1m, attributed to £24.6m received net of expenses from the fundraise completed in December 2021, less £3.2m used in investing activities and £8.1m used in operating activities.

The Company continues to carefully manage its underlying cost base and invests prudently on capital expenditure required to support its commercial strategy. The Company incurs a proportion of its expenses in US dollars and has exposure to the US dollar exchange rate. This is hedged to the extent possible by holding cash reserves in US dollars.

RULA DEVELOPMENTS (IMMINGHAM) LTD

In December 2021, Altalto Immingham Ltd, a 100% owned subsidiary of the Company, exercised an option to purchase Rula Developments (Immingham) Ltd ("RDIL"), a property development company which owns the site of the proposed Altalto project, near Immingham in North East Lincolnshire. The total consideration to acquire RDIL comprised a cash payment of £2.5m in December 2021 and a further deferred consideration amount of £7.25m, which was recorded in current liabilities at 31 December 2021. The value of the net assets acquired was £9.8m and further details are provided in note 2 of the consolidated financial statements.

In March 2022, the Company signed a sale and purchase agreement with a subsidiary of Foresight Group LLP ("Foresight") to sell 100% of its shares held in RDIL. The Company received total consideration of £9.75m which was used to pay the deferred consideration of £7.25m due to the previous owners of RDIL arising from the purchase in December 2021 described above.

At the same time, the Company entered into a Call Option agreement with Foresight which enables the Company to re-purchase the RDIL shares in up to three years from March 2022, therefore, in substance, maintaining control over the Altalto development site at Immingham. As a result, the Company has accounted for the Call Option as a financing arrangement at amortised cost applying the effective interest method under IFRS 9.

The option agreement includes a quarterly payment to Foresight of £100,000. Further details of the financing arrangement are provided in note 17 of the consolidated financial statements.

IMPAIRMENT ASSESSMENTS (COMPANY AND THE PARENT COMPANY)

Our impairment testing in relation to the long-term potential of the Company's in-process technology assets has not identified a change in circumstances or specific events during 2022, and therefore no impairment or reversal of previous impairments have been recorded in respect of the Company's assets in 2022.

The recoverable value is determined by comparing the higher of the value in use and the fair value less costs of disposal. Given the early stage of the Company's commercialisation plans, the share price of the parent Company is deemed the most accurate indicator of value. The market capitalisation value at 31 December 2022 was £65.7m compared to £103.1m at the previous year end, reflective of the challenging global economic and market conditions depressing stock market performances across many sectors. The Company's net assets were £17.0m (2021: £29.7m), so approximately 26% of the parent company's market capitalisation value (2021: 29%).

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

- The present value of estimated future net cash flows, using the Company's internal forecasts.
- Global demand forecasts for sustainable aviation fuel.

- Government policy support and commitments for carbon reduction.
- Potential competing technologies.
- New commercial arrangements signed during the year.

In November 2021, the Company entered into its first offtake agreement, with Southwest Airlines (“Southwest”), for two thirds of the sustainable aviation fuel to be produced at the planned Bayou Fuels biorefinery project. A memorandum of understanding with International Consolidated Airlines Group S.A. (“IAG”) was also concluded.

While these two long-dated fuel offtake arrangements provide a high level of confidence of revenue for the Bayou Fuels project, which is an important step towards enabling capital financing for the engineering and construction phases, the Company from this point will likely retain only a minority interest in the project entity.

Landing commercial orders for reactors and catalyst, either from the reference projects or new commercial clients, supported by less variation in long-term cash flow forecasts and demand schedules, will be strong indicators that previous impairments of the Company’s in-process technology assets may require reversal.

The parent company, Velocys plc, has both equity investments in its subsidiaries and loans made to its subsidiaries, which are compared to their recoverable amount. The impairment assessment for the equity investments considers their value compared to the parent company’s market capitalisation value. These totalled £9.4m at 31 December 2022 (compared to the parent company’s market capitalisation value of £65.7m). No impairment indicators were identified and, as a result, no impairment was recognised (2021: £nil).

The parent company also assessed loans receivable from its subsidiaries and as a result recorded a provision charge for expected credit losses (“ECL”) of £2.2m (2021: £2.0m). The total ECL provision of £6.1m at 31 December 2022 (2021: £3.9m) is eliminated on consolidation and therefore is not seen in the consolidated financial statements.

MATERIAL UNCERTAINTY OVER GOING CONCERN

The Company has been actively preparing for a new corporate fundraise post year end which takes the form of a placing, retail offer and open offer of new ordinary shares. In addition, the Company has agreed to the issuance of convertible loan notes to Carbon Direct Capital, who has provided a commitment to proceed provided that the Company is able to raise a minimum of £32m (including from the placing, the retail offer and the open offer announced on 18 May 2023 and Carbon Direct Capital’s existing conditional convertible loan note commitment for $15m (£12.0m).

The Company plans to achieve this by raising approximately £8m from the placing, retail offer and open offer and the balance from the issuance of convertible loan notes and/or the issuance of new ordinary shares to investors. However, as at the date of this unaudited preliminary announcement, the Company does not have firm commitments from any additional investors to subscribe for the convertible loan notes and has set a deadline of 30 September 2023 for completing this part of the fundraise.

At the point of this unaudited preliminary announcement, the directors have reviewed the non-binding indications for the placing with the Company’s joint brokers and are satisfied that, as a minimum, the accelerated bookbuild can be expected to generate the target of £6m.

Subject to closing, the placing is conditional on shareholder approval at a General Meeting scheduled for 8 June 2023. The directors believe that all resolutions required to execute the placing will be successfully approved at the general meeting as a matter of course, with proceeds to be received shortly after.

The directors reviewed the Company’s business plan and cash flow forecasts on the basis that the placing, retail offer and open offer is approved at the general meeting. These cash resources will be used to provide working capital and to enable continued work on the reference projects to the point of reaching key decisions. If the convertible loan notes are issued, the Company will move forward with its plans to scale up the organisation to meet its commercial objectives. In the event that the convertible loan notes are not issued, the Company would require further funding, in addition to the £8m equity fundraise announced on 18 May 2023, to be able to continue as a going concern for at least twelve months from the date of this preliminary announcement.

At the time of this unaudited preliminary announcement, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company and Velocys plc’s ability to continue as a going concern.

The unaudited preliminary announcement does not include any adjustments that would arise if the Company and Velocys plc were unable to continue as a going concern.

Consolidated income statement

for the year ended 31 December 2022

	Note	**2022 £'000**	2021 £'000
Revenue	3	241	8,283
Cost of sales		(87)	(4,881)
Gross profit		154	3,402
Administrative expenses	4	(16,263)	(13,331)
Other income	6	1,624	956
Operating loss		(14,485)	(8,973)
Finance income	7	1,359	34
Finance costs	8	(828)	(551)
Net finance costs		531	(517)
Loss before income tax		(13,954)	(9,490)
Income tax credit		755	1,049
Loss for the financial year attributable to the owners of Velocys plc		(13,199)	(8,441)
Loss per share attributable to the owners of Velocys plc			
Basic and diluted loss per share (pence)	9	(0.95)	(0.78)

Consolidated statement of comprehensive income

for the year ended 31 December 2022

	2022 £'000	2021 £'000
Loss for the year	(13,199)	(8,441)
Items that may be reclassified to the income statement in subsequent periods:		
Foreign currency translation differences	(412)	113
Total comprehensive expense for the year attributable to the owners of Velocys plc	(13,611)	(8,328)

Consolidated statement of financial position

as at 31 December 2022

	Note	**2022 £'000**	2021 £'000
Assets			
Non-current assets			
Property, plant and equipment	10	11,004	11,006
Right-of-use asset	11	399	500
Intangible assets	12	1,524	1,086
		12,927	12,592
Current assets			
Inventories	14	855	767
Trade and other receivables	15	2,586	1,274
Current income tax asset		976	1,100
Cash and cash equivalents	16	13,383	25,506
		17,800	28,647
Total assets		30,727	41,239
Liabilities			
Non-current liabilities			
Provisions	17	(13)	–
Lease labilities	11	(51)	(189)
Other financial liabilities	18	(9,719)	–
Other liabilities		(165)	–
		(9,948)	(189)
Current liabilities			
Provisions	17	(216)	–
Trade and other payables	19	(2,596)	(2,969)
Lease liabilities	11	(375)	(397)
Deferred consideration		–	(7,250)
Other financial liabilities	18	(376)	–
Other liabilities		(322)	(431)
Deferred revenue		(206)	(326)
		(4,091)	(11,373)
Total liabilities		(14,039)	(11,562)
Net assets		16,688	29,677
Capital and reserves attributable to owners of Velocys plc			
Called up share capital		13,977	13,936
Share premium account		221,141	221,059
Merger reserve		369	369
Share-based payments reserve		3,137	2,638
Foreign exchange reserve		2,739	3,151
Accumulated losses		(224,675)	(211,476)
Total equity		16,688	29,677

Consolidated statement of changes in equity

for the year ended 31 December 2022

	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 year	–	–	–	–	–	(8,441)	(8,441)
Other comprehensive expense							
Foreign currency translation differences	–	–	–	–	113	–	113
Total comprehensive expense	–	–	–	–	113	(8,441)	(8,328)
Transactions with owners							
Share-based payments – value of employee services	–	–	–	293	–	–	293
Transfer from share-based payments reserve	–	–	–	(14,000)	–	14,000	–
Net proceeds from share issues	3,278	21,326	–	–	–	–	24,604
Proceeds from options exercised	16	32	–	–	–	–	48
Total transactions with owners	3,294	21,358	–	(13,707)	–	14,000	24,945
Balance at 31 December 2021	13,936	221,059	369	2,638	3,151	(211,476)	29,677
Balance at 1 January 2022	13,936	221,059	369	2,638	3,151	(211,476)	29,677
Loss for the year	–	–	–	–	–	(13,199)	(13,199)
Other comprehensive expense							
Foreign currency translation differences	–	–	–	–	(412)	–	(412)
Total comprehensive expense	–	–	–	–	(412)	(13,199)	(13,611)
Transactions with owners							
Share-based payments – value of employee services	–	–	–	499	–	–	499
Proceeds from options exercised	41	82	–	–	–	–	123
Total transactions with owners	41	82	–	499	–	–	622
Balance at 31 December 2022	13,977	221,141	369	3,137	2,739	(224,675)	16,688

Consolidated statement of cash flows
for the year ended 31 December 2022

	Note	**2022**	2021
		£'000	£'000
Cash flows from operating activities			
Operating loss		(14,485)	(8,973)
Depreciation and amortisation		1,194	1,084
Profit on sale of property, plant and equipment		(113)	-
Impairment of inventory		-	118
Share-based payments		499	293
FX not related to cash		647	-
Changes in working capital (excluding the effects of exchange differences on consolidation)			
Trade and other receivables		(1,312)	4,908
Trade and other payables		(373)	2,037
Other liabilities		285	(566)
Deferred revenue		(120)	(7,830)
Inventory		-	85
Cash consumed by operations		(13,778)	(8,844)
Tax credits received		879	759
Net cash used in operating activities		(12,899)	(8,085)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		113	-
Purchase of property, plant and equipment		(7,759)	(2,730)
Purchase of intangible assets		(539)	(518)
Interest received		83	34
Net cash used in investing activities		(8,102)	(3,214)
Cash flows from financing activities			
Proceeds from issues of shares		–	26,222
Costs of issuing shares		–	(1,618)
Proceeds from issue of share options		123	48
Principal elements of lease payments		(611)	(485)
Interest paid		(828)	(116)
Proceeds from borrowings		9,750	–
Financing interest/option fees		345	–
Net cash generated from financing activities		8,779	24,051
Net (decrease)/increase in cash and cash equivalents		(12,222)	12,752
Cash and cash equivalents at beginning of year	16	25,506	13,051
Exchange movements on cash and cash equivalents		99	(297)
Cash and cash equivalents at end of year	16	13,383	25,506

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

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

Basis of preparation
In accordance with the Companies Act 2006, these unaudited preliminary consolidated financial statements have been prepared and approved by the Directors in accordance with UK adopted international accounting standards.

The financial information for the year ended 31 December 2021 does not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The independent auditors' report on the full financial statements for the year ended 31 December 2021 was unqualified and did not contain an emphasis of matter paragraph or any statement under section 498 of the Companies Act 2006.

This preliminary announcement does not constitute the Company's full financial statements for the year ended 31 December 2022. The Company's full financial statements will be approved by the Board and reported on by the Company’s auditors subsequently in May 2023. Accordingly, the financial information for 2022 is presented unaudited in this preliminary announcement.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities at fair value, where relevant. No such adjustments to financial assets or liabilities were required in 2022 or 2021.

The preparation of financial statements to conform to UK adopted international accounting standards requires the use of certain critical accounting estimates and the exercise of management’s judgement in the application of the Company’s accounting policies. Areas involving a higher degree of judgement or complexity, and areas where assumptions and estimates are significant to the financial statements are set out in the relevant note below.

Going concern
Based on the Company’s latest forecast and cash flow projections approved by the Board, additional and imminent funding is required at the date of approving these unaudited preliminary consolidated financial statements in order for the Company to continue as a going concern. As at the date of approving these unaudited preliminary consolidated financial statements, the Company has cash reserves of £5.3m including £0.5m of restricted cash, which is sufficient to operate the Company for approximately 8 weeks.

The Company’s main source of new funds has been by undertaking a capital raise on AIM, with the last fundraise being completed in December 2021. The Company has been actively preparing for a new corporate fundraise post year end which takes the form of a placing, retail offer and open offer of new ordinary shares, and opens concurrent with the release of these unaudited preliminary results. In addition, the Company has agreed to the issuance of convertible loan notes of $15m (approximately £12.0m) to Carbon Direct Capital, who has provided a commitment to proceed provided that the Company is able to raise a minimum of £32m (including from the placing, the retail offer and the open offer equity raise announced on 18 May 2023 and the existing conditional convertible loan note commitment for £12.0m).

The Company plans to achieve this by raising approximately £8 million from the placing, retail offer and open offer, referred to above, and the balance from the issuance of convertible loan notes and/or the new ordinary shares to investors. However, as at the date of this preliminary announcement, the Company does not have firm commitments from any additional investors to subscribe for convertible loan notes and has set a deadline of 30 September 2023 for completing this part of the fundraise.

At the point of this preliminary announcement, the directors have reviewed the non-binding indications for the placing announced on 18 May 2023 with the Company's joint brokers and are satisfied that, as a minimum, the accelerated bookbuild process will generate the target of £6 million.

Subject to closing, the placing is conditional on shareholder approval at a General Meeting scheduled for 8 June 2023. The directors believe that all resolutions required to execute the placing will be successfully approved at the general meeting as a matter of course, with proceeds to be received shortly after.

The directors reviewed the Company's business plan and cash flow forecasts on the basis that the placing, retail offer and open offer is approved at the general meeting. These cash resources will be used to provide working capital and to enable continued work on the reference projects to the point of reaching key decisions. If the convertible loan notes are issued, the Company will move forward with its plans to scale up the organisation to meet its commercial objectives. In the event that the convertible loan notes are not issued, the Company would require further funding, in addition to the £8 million equity fundraise announced on 18 May 2023, to be able to continue as a going concern for at least twelve months from the date of this preliminary announcement.

At the time of this unaudited preliminary announcement, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company and Velocys plc's ability to continue as a going concern.

The unaudited preliminary announcement does not include any adjustments that would arise if the Company and Velocys plc were unable to continue as a going concern.

Changes in accounting policies

New accounting standards adopted by the Company

The Company has not applied any new accounting standards during the year ended 31 December 2022 or 2021.

New accounting standards in issue but not yet effective

At the date of authorisation of these consolidated financial statements, several new, but not yet effective, Standards and amendments to existing Standards and Interpretations have been published by the IASB or IFRIC. None of these Standards or amendments to existing Standards have been adopted early by the Company and no Interpretations have been issued that are applicable and need to be taken into consideration by the Company at either reporting date.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Company's consolidated financial statements.

Significant accounting policies

Consolidation – subsidiaries

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

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

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of Velocys plc's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in pounds sterling (£). It should be noted that the functional currency for

Velocys plc is pounds sterling as Velocys plc is traded on the AIM market and is head quartered in the UK. Currently all new equity based fund raises are completed in the UK and made in £.

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

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

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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

2. ACQUISITION OF RULA DEVELOPMENTS (IMMIMGHAM) LTD

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

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

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

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

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

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

The financing arrangement set out in note 18 enabled the Company to settle the deferred consideration due, in March 2022.

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

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

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

3. REVENUE

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

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

If the entity is providing a single performance obligation in the form of an integrated set of activities, each contract is assessed to determine if it meets the criteria for recognition over time. This would require the contract to either transfer control of the combined output over time or for the entity to have an enforceable right of payment for the performance completed to date for activities that do not create an asset with alternative use.

One contract that was signed in 2018 with reactor and catalyst deliveries completed in 2020 was either subject to a performance test run in 2021 or the performance obligations expired under the terms of the contract in 2021 if the test was not completed. This has been assessed as a combined performance obligation and it was determined in 2021 that the above criteria have now been met. As such, all consideration received has been recognised as revenue in that year.

Critical estimates and judgements
Determining whether the goods or services provided are considered distinct performance obligations from the supply of equipment can require significant judgment. The Company's agreements, in some instances, could have a single performance obligation, which would result in the deferral of revenue until the performance obligation is satisfied. This is the case when the entity promises an integrated package of goods and services and where the customer is receiving a combined output (for example, an engineering service that results in

operational technology at a particular site). In other instances, there will be no integration service and each good or service will be considered separately.

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

	2022 **£'000**	2021 £'000
FT reactor, catalyst and licence (recognised at a point in time)	–	8,132
Engineering services (recognised over time)	241	151
Total	241	8,283

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

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

4. ADMINISTRATIVE EXPENSES

	2022 **£'000**	2021 £'000
Employee benefit expense (note 5)	8,155	6,310
Project engineering and consultancy costs	3,171	2,799
Facilities and administrative costs	1,071	1,257
Patents and IP related costs	349	193
Insurance	629	536
Legal and professional services	1,338	971
Travel	356	181
Depreciation of property, plant and equipment (note 10)	478	453
Depreciation of right-of-use asset (note 11)	542	459
Amortisation of intangible assets (note 12)	174	172
Total administrative expenses	16,263	13,331

Included in administrative expenses were research and development costs of £2,440,000 (2021: £2,122,000)

5. EMPLOYEE BENEFIT EXPENSE

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

Pensions
The Company operates various defined contribution pension schemes for its employees. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefit derived from the current and prior periods. The amount charged to the Consolidated income statement in respect of pension costs and other post-retirement benefits represents the contributions payable in the year. Differences between contributions payable and contributions actually paid are accrued. The Company has no further payment obligations once the contributions have been paid. As at 31 December 2022 the total amount accrued was £39,000 (2021: £23,000)

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

	2022 number	2021 number
Technical and engineering	19	17
General and administration	17	15
Total average headcount	36	32

Their aggregate remuneration comprised the following items.

	2022 £'000	2021 £'000
Wages and salaries	6,180	4,783
Short-term non-monetary benefits	649	491
Social security contributions and similar taxes	514	616
Defined contribution pension costs	313	330
Severance expense	90	–
Share-based payments granted to directors and employees	499	293
Total remuneration before reclassification of wages and salaries	8,245	6,513
Reclassification of wages and salaries	(90)	(203)
Total remuneration	8,155	6,310

Wages and salaries for the year ended 31 December 2022 include discretionary bonuses payable in 2023 to executive directors and employees totalling £1,237,000 (2021: £1,052,000) in respect of 2022 performance.

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

The reclassification of wages and salaries relates to employees who provide engineering services to customers.

6. OTHER INCOME

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

Income from government grants is recognised only when there is reasonable assurance that (a) the Company has complied with any conditions attached to the grant and (b) the grant will be received. The grant income recognised in 2022 was in respect of the UK Department for Transport's ("DfT") Green, Fuels, Green Skies ("GFGS") initiative. In the year ended 31 December 2021, the grant income comprised £523,000 from a US Federal Government stimulus package to support businesses during the COVID-19 crisis, £233,000 from the GFGS grant and £200,000 from the Future Fuels for Flight and Freight, also awarded by the UK DfT.

	2022 £'000	2021 £'000
Income from government grants	1,511	956
Profit on sale of property, plant and equipment	113	–
Total	1,624	956

7. FINANCE INCOME

	2022 £'000	2021 £'000
Interest income on bank deposits	39	2
Interest income on customer late payments	44	32
Foreign exchange gains	1,276	–

Total	1,359	34

8. FINANCE COSTS

	2022	2021
	£'000	£'000
Interest on lease liabilities	64	116
Interest on other financial liabilities	764	–
Foreign exchange losses	–	435
Total	828	551

9. BASIC AND DILUTED LOSS PER SHARE

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

	2022	2021
Loss attributable to owners of Velocys plc (£'000)	(13,199)	(8,441)
Weighted average number of ordinary shares in issue ('000)	1,395,967	1,078,827
Basic and diluted loss per share (pence)	(0.95)	(0.78)

Diluted loss per share is calculated by adjusting the weighted average number of shares in issue to assume conversion of all potential dilutive shares. Share options have not been included in the number of shares used for the purpose of calculating diluted loss per share since these would be anti-dilutive for the period presented. At the end of 2022 and 2021 there were no other potentially dilutive instruments.

10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost, net of depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to working condition for its intended use. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, which for plant and machinery is three to ten years. No depreciation is provided on land or assets under construction. Residual values and useful lives are reviewed annually. Values are estimated using benchmark prices at the balance sheet date; useful lives are estimated based on management expectations of future project requirements and operational assessment of the state of assets.

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

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

Expenditure funded by research partners is only recognsied 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.

2022	Assets under construction £'000	Land £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2022	–	11,049	9,181	20,230
Additions	46	–	463	509
Disposals	–	(1,370)	(8)	(1,378)
Foreign exchange	–	141	1,037	1,178
At 31 December 2022	46	9,820	10,673	20,539
Accumulated depreciation and impairment				
At 1 January 2022	–	1,081	8,143	9,224
Charge for the year	–	–	478	478
Disposals	–	(1,205)	(8)	(1,213)
Foreign exchange	–	124	922	1,046
At 31 December 2022	–	–	9,535	9,535
Net book amount				
At 31 December 2022	46	9,820	1,138	11,004

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

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

As at 31 December 2022, the gross carrying amount of fully depreciated property, plant and equipment still in use was £8,173,000 (2020: £7,217,000).

11. RIGHT-OF-USE ASSETS

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

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

To determine the incremental borrowing rate, the Company uses a build-up approach. This starts with a risk-free interest rate adjusted for credit risk for leases that do not have recent third party financing. Adjustments specific to the lease, e.g. term, country, currency and security, are then made to this risk-free rate. Interest expense (included in finance costs) was £64,000 (2021: £116,000). The total cash outflow as a result of leasing activity was £611,000 (2021: £588,000).

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

The associated right-of-use assets are initially measured at an amount equal to the lease liability. Any assessment of the lease liability, such as at a lease extension, results in an equal adjustment in the net book value of the associated asset. The right-of-use assets are depreciated over the lease term on a straight-line basis and are subject to impairment in accordance with IAS 36. No impairment was recorded at 31 December 2022 and at 31 December 2021.

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

The balance sheet presents the following amounts related to right-of-use assets:

2022	**Equipment £'000**	**Buildings £'000**	**Total £'000**
Cost			
At 1 January 2022	162	1,548	1,710
Additions	–	394	394
Disposals	(181)	–	(181)
Foreign exchange	19	146	165
At 31 December 2022	–	2,088	2,088
Accumulated depreciation			
At 1 January 2022	121	1,089	1,210
Charge for the year	45	497	542
Disposals	(180)	–	(180)
Foreign exchange	14	103	117
At 31 December 2022	–	1,689	1,689
Net book amount			
At 31 December 2022	–	399	399

Additions and disposals in 2022

During 2022, an equipment storage facility was acquired under a lease agreement, the Company's Texas office and the Oxford headquarters had their lease terms extended by 12 months and, as an equipment lease agreement expired, it was derecognised. In addition, management decided to recognise specific dilapidation provisions on the leasehold properties that resulted in increases in the cost base of those assets. The long term equipment storage facility new lease resulted in additional lease commitments, and increase in the right-of-use costs, of £66,000 (2021: £nil). The extension of lease terms for the Texas office and the Oxford headquarters, resulted in net increases in lease commitments and in the right-of-use costs of £267,000 (2021: £316,000).

£61,000 of the additions related to the dilapidation costs. Of the total £229,000 dilapidations costs that were initially recognised in 2022, £168,000 was expensed through the income statement.

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

Additions and disposals in 2021

During 2021 the lease terms for the Company's offices in Ohio and Texas were extended, which resulted in an increase in the right-of-use assets of £316,000.

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

Various equipment leases expired in 2021 which have been derecognised. In addition, management's review of the lease assets resulted in the early derecognition of a further equipment right-of-use asset. The net effect of derecognising these assets resulted in a net decrease of £4,000.

Analysis of lease liabilities	2022 £'000	2021 £'000
In one year or less	375	397
In more than one year but not more than five years	51	189
Present value of lease liabilities	426	586
Current portion	375	397
Non-current portion	51	189

12. INTANGIBLE ASSETS

Goodwill

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

In-process technology

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

Patents, licences and trademarks

Patents and trademarks are recorded at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over a period of 20 years, which is their estimated useful economic life. Residual values and useful lives are reviewed annually and adjusted if appropriate.

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

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

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

Amortisation charges of £174,000 for patents, licences and trademarks are included in administrative expenses (2021: £172,000). There were no amortisation charges recorded in respect of other classes of intangible assets during the year as the net book value was £nil (2021: £nil).

Impairment
Intangible assets are reviewed for impairment annually and whenever events or changes in circumstances indicate their carrying value may not be recoverable. To the extent carrying value exceeds recoverable amount, the difference is recognised as an expense in the income statement. The recoverable amount used for impairment testing is the higher of value in use and fair value less costs of disposal.

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

A CGU represents the lowest operating structure level for which there are separately identifiable cash inflows that are largely independent of other operating units. The Company has one CGU on the basis that the key end use market is that of sustainable transport fuels production. At this stage, the sustainable transport fuels segment represents 100% of the business and therefore represents the only material segment. Based on management’s judgement, all products and services offered within the operating segment have similar economic characteristics.

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

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

The analysis performed at 31 December 2022 compared the carrying amount of £1.5m with the value of Velocys plc’s equity based on the AIM-listed shares at this date. This assessment also considered the operating performance of the Company during 2022 which included progress on our reference projects. Whilst there was clear evidence of the Company’s progress during 2022, Management also considered the wider economic environment.

Critical estimates and judgements
In assessing whether there is any indication that an asset may be impaired or whether a reversal of prior year impairments is required, the Company considers, as a minimum, a number of indicators. In 2022, the Company considered:

- At 31 December 2022, whether the carrying amount of the Company’s net assets was above or below Velocys plc’s market capitalisation;

- Whether significant increases or decreases in the market price of the assets had occurred;
- Whether there were significant favourable or adverse changes in the extent or manner in which the assets are being used; and
- Whether there were significant favourable or adverse changes in the global market for sustainable aviation fuel and global economic factors more generally.

Based on the 2022 analysis, the Company concluded that no further impairment was required.

As detailed in the accounting policy set out above, the Company is considered to operate as a single CGU. Whilst the Company's strategy and biorefinery development plans are clearly defined, Management considers that it is still too early to rely upon its revenue forecasts for long-term discounted cash flow analysis. Consequently, the CGU's recoverable amount has been determined based on its fair value less costs of disposal (fair value), by reference to the total value of the parent company's equity based on the AIM-listed shares of the parent company, consistent with the impairment assessment performed in previous years.

Management also concluded that at 31 December 2022 there were insufficient indicators that impairment losses previously recognised had reversed. This was despite the market capitalisation exceeding the carrying amount of the Company's net assets, as the Board concluded that the Company's current commercial position, without any significant new customer contracts or additional investors into the reference projects outweighed the other positive aspects considered.

2022	Goodwill £'000	In-process technology £'000	Patents, licence and trademarks £'000	Software £'000	Total £'000
Cost					
At 1 January 2022	7,398	23,681	2,491	101	33,671
Additions	–	–	522	17	539
Disposals	–	–	(514)	–	(514)
Foreign exchange	–	–	113	1	114
At 31 December 2022	7,398	23,681	2,612	119	33,810
Accumulated amortisation and impairment				–	
At 1 January 2022	7,398	23,681	1,410	96	32,585
Charge for the year	–	–	174	–	174
Disposals	–	–	(514)	–	(514)
Foreign exchange	–	–	41	–	41
At 31 December 2022	7,398	23,681	1,111	96	32,286
Net book amount					
At 31 December 2022	–	–	1,501	23	1,524

Note

Disposals represent renewal fees relating to patents no longer being capitalised.

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

13. COMMITMENTS AND CONTINGENCIES

(a) Commitments

Commitments are not held on the Company's balance sheet as these are executory arrangements that relate to amounts the Company is contractually required to pay in the future as long as the other party meets its contractual obligations.

The Company has committed to making a total contribution of £1,776,000 towards the construction costs of a new leasehold building in Ohio which will house the Company's manufacturing and technical facilities which commenced construction in 2022 and is expected to be completed in the first half of 2023. The Company has already made stage payments of £897,000 in the year ended 31 December 2022, and further stage payments totalling £879,000 are due over the remaining construction period upon specific milestones being completed. The Company has provided a letter of credit in respect of this commitment, with cash provided as collateral, and therefore has presented this amount as restricted cash as at 31 December 2022. As stage payments are made, the cash collateral is reduced by an equivalent amount.

The Company has also paid deposits to suppliers of £1,127,000 for property, plant and equipment comprising long lead-time manufacturing and catalysis laboratory equipment in the year ended 31 December 2022, with commitments to make further payments of £2,087,000 during 2023 under these contracts.

Therefore, total capital expenditure contracted for during the year ended 31 December 2022, but not yet recognised, was as follows:

	2022	2021
	£'000	£'000
Contribution to new building	879	–
Manufacturing equipment	1,866	–
Catalysis laboratory equipment	221	–
Total	2,966	–

(b) Contingent liabilities

The Company had no contingent liabilities at 31 December 2022 (2021: £nil).

14. 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.

	2022	2021
	£'000	£'000
Raw materials and consumables	373	286
Finished goods	482	481
Total	855	767

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

As at 31 December 2022, the Company had a total inventory provision of £855,000 (2021: £771,000). The Company recorded £nil (2021: £118,000) related to slow moving inventory in the Administrative expenses line of the Consolidated income statement.

15. TRADE AND OTHER RECEIVABLES

	2022	2021

	£'000	£'000
Trade receivables	–	6
Prepaid costs	2,471	748
Grants receivable	–	158
Other receivables	115	362
Total	2,586	1,274

Prepaid costs at 31 December 2022 include part payments for manufacturing and catalysis laboratory equipment yet to be delivered at 31 December 2022 and the contribution to the new building in Ohio (see note 13).

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

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

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

There were no Grants receivable as at 31 December 2022. The value as at 31 December 2021 were in respect of the Green Fuels Green Skies grant awarded to the Altalto Immingham project.

Other receivables consist of vendor deposits and sales taxes recoverable.

16. CASH AND CASH EQUIVALENTS

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

	2022	2021
	£'000	£'000
Unrestricted cash	12,428	25,506
Restricted cash	955	–
Total	13,383	25,506

Restricted cash as at 31 December 2022 relates to the total undrawn amount of a cash secured letter of credit provided by the Company as part of its commitment towards the construction costs of the new leasehold premises (see note 13).

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

	2022	2021
	£'000	£'000
Cash and cash equivalents UK		
UK sterling denominated	10,202	16,908
US dollar denominated	3,180	8,584

Euro denominated	1	14
Total	13,383	25,506

17. PROVISIONS

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the net present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Restoration provisions

Provisions for the costs to restore leased assets to their original condition, as required by the terms and conditions of the lease, are recognised when the obligation is incurred, either at the commencement date or as a consequence of having used the underlying asset during a particular period of the lease, at managements' best estimate of the expenditure that would be required to restore the assets. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

	2022 **£'000**	2021 £'000
Restoration provision	229	–
Total	229	–

	2022 **£'000**	2021 £'000
Current	216	–
Non-current	13	–
Total	229	–

	Restoration provision **£'000**	**Total** **£'000**
As at 1 January 2022	–	–
Additional provision in the year	229	229
Total	229	229

The restoration provision is in respect of the Company's leased premises in Columbus, Ohio, which the Company plans to vacate by the fourth quarter of 2023. Management have estimated the costs of restoring the building to the standard required, and in doing so have made cost estimates where quotes or purchase orders are not already in place. Whilst it is not possible to identify all rectification works whilst the building remains in use, management do not expect the total costs to exceed the estimated provision.

18. OTHER FINANCIAL LIABILITIES

Other financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at fair value through profit and loss, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part or the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Critical accounting judgements and estimates
In March 2022, the Company received £9,750,000 from Blackmead Infrastructure Limited, a subsidiary of Foresight Group LLP ("Foresight") as cash consideration for Foresight's purchase of 100% of the ordinary shares of Rula Developments Immingham Limited ("RDIL").

The Company has determined that the cash consideration of £9,750,000, which enabled the Company to settle the £7,250,000 deferred consideration due from the acquisition of RDIL in December 2021 (see note 4), meets the criteria of a financial liability measured subsequently at amortised cost using the effective interest method.

The Company signed a Call Option agreement with Foresight which gives it the right to re-purchase RDIL over a period of up to three years from the effective date of 23 March 2022. If the option is exercised on or before the 2nd anniversary date, the purchase price due to Foresight is £11,250,000. If the option is exercised after the 2nd anniversary date and before the expiry date, the purchase price increases to £11,750,000. Management's current expectation is that the full 36 month option period will apply and therefore the calculation at amortised cost is based on this scenario.

Quarterly option fees of £100,000 are due throughout the option period. Because the Company maintains significant control over RDIL's asset, namely the Immingham development site, throughout the option period, management have assessed that the most appropriate accounting treatment is to continue recognising the asset and to account for a financing liability to Foresight.

Financial liabilities at amortised cost	**2022**	2021
	£'000	£'000
At 1 January	–	–
Initial fair value recognised	9,750	–
Interest expense	745	–
Payments made	(400)	–
As at 31 December	10,095	–

	2022	2021
	£'000	£'000
Current	376	–
Non-current	9,719	–
Total	10,095	–

19. TRADE AND OTHER PAYABLES

	2022	2021
	£'000	£'000
Trade payables	289	593
Other taxation and social security	77	203
Accruals	2,230	2,173
Total	2,596	2,969

Due to their short maturity, the fair value of trade and other payables is not considered to be materially different to their carrying values, based on discounted cash flows. All trade payables are due in 60 days or less (2021: 60 days or less).

20. POST FINANCIAL POSITION EVENTS

Master relationship agreement executed with Bechtel Limited
On 25 January 2023 the Company signed a master relationship agreement with Bechtel Limited setting out a route map for the parties to collaborate with each other with the objective of developing an engineering procurement construction (EPC) execution model for the Company's sustainable fuels projects.

Appointment of financial advisor to support raising finance for the Altalto Immingham and Bayou Fuels reference projects
In March 2023, following a competitive RFP process, Velocys announced the appointment of a leading global investment bank to assist in securing the necessary development capital for the Company's two reference projects.

Fundraise announced in May 2023
The Company announced its intention to raise a minimum of £32 million in aggregate (before expenses) by way of a conditional placing together with a retail offer to existing retail shareholders, an open offer of new ordinary shares to existing shareholders, a proposed conditional issue of convertible loan notes to Carbon Direct Capital, and potential further issuances of convertible loan notes and/or new ordinary shares. The launch of an accelerated book build process today for a placing is expected to raise a minimum of £6.0 million (before expenses), with the process scheduled to complete on 9 June 2023, provided the necessary approvals from the Company's shareholders required are obtained at a General Meeting of the Company's shareholders expected on 8 June 2023. The open offer period, for up to a maximum of £2.0 million proceeds (before expenses) will also run until the day before the general meeting. The retail offer is for up to a maximum of £0.5 million proceeds (before expenses).

21. STATUTORY INFORMATION

Copies of the 2022 Annual Report and Accounts will be posted or emailed to shareholders at least 21 days before the Company's Annual General Meeting and may be obtained, free of charge for one month from the date of posting, from the registered office of Velocys plc, Magdalen Centre, Robert Robinson Avenue, The Oxford Science Park, Oxford, OX4 4GA, UK, as well as from the Company's website www.velocys.com.

22. ANNUAL GENERAL MEETING

The Annual General Meeting ("AGM") is to be held on 28 June 2023. Notice of the AGM will be dispatched to shareholders with the Company's 2022 Annual Report and Accounts.