VELOCYS PLC ANNUAL REPORT & ACCOUNTS 2022

Investing for long term growth

VELOCYS


AAF
METAL

Contents

About Velocys

Enabling the decarbonisation of aviation

Velocys is an international sustainable fuels technology company, traded on the London Stock Exchange Alternative Investment Market ("AIM"), providing customers with IP-protected technology. The technology solution enables the production of synthetic fuels from a variety of sustainable non-fossil waste materials, such as woodchips and residual waste. Synthetic fuel is a leading, commercially available, permanent alternative to fossil aviation fuels. Velocys' ambition is to accelerate enabling commercial scale sustainable aviation fuel ("SAF") production in response to the global clean energy transition.

Synthetic fuel remains the here and now solution to decarbonise aviation, as it is identical to fossil jet fuel with the same physical and chemical properties. It is, therefore, a 'drop-in' fuel allowing it to be blended into existing airport fuelling systems without any fuel segregation or modification of jet turbines.

The fuel created through Velocys' technology is a negative carbon intensity fuel with carbon sequestration. It has the potential to support national fuel security initiatives as well as delivering environmental improvements as a cleaner burning fuel, compared to conventional fossil fuels, with greatly improved air quality.

The fuel contains much lower sulphur oxide, nitrogen oxide and particulate matter emissions when combusted in conventional engines and turbines.

The Company has reference projects in the US and UK which are designed to accelerate the adoption and standardisation at a large-scale operational level of the Velocys proprietary Fischer-Tropsch ("FT") technology with an integrated end-to-end solution, which includes the use of renewable power and carbon sequestration.

An international roster of customers, technology partners and industry stakeholders, including Southwest Airlines and IAG, confirms Velocys' ability to offer an economical and commercially viable route to directly decarbonise transportation using sustainable synthetic fuels.

With an integrated and standardised service offering, Velocys has a platform for delivery of scalable and sustainable growth in a market with high barriers to entry, creating a pathway to significant value for all stakeholders.

Highlights

£0.2m

revenue recognised (2021: £8.3m)[1]

£14.5m

operating loss (2021: £9.0m)[2]

£13.4m

cash at year end (2021: £25.5m)

OPERATIONAL

Construction completed and **15 year lease** secured on **new 52,000 sq. ft.** reactor core manufacturing facility in Ohio, US

Strengthening of executive management team:

- **Philip Sanderson** appointed Chief Financial Officer
- **Andy Bensley** appointed as SVP Business Development and Technology Delivery

Scientific Advisory Board formed with world-leading experts in catalysis

REFERENCE PROJECTS

Altalto Immingham site control secured through sale and repurchase option with **Foresight Group LLP**

British Airways ("BA") Joint Development Agreement and Option Agreement to **acquire 50% of Altalto** to 31 March 2023 (and post year end to 31 March 2024).

Bayou Fuels **successfully reoptimised** to produce a negative carbon intensity of **-375g CO_2e/MJ (previously -144g CO_2e/MJ)**

DfT Advanced Fuels Fund grants **awarded: £27m** for Altalto and **£2.5m** for e-fuels project

POLICY FRAMEWORK

US Inflation Reduction Act 2022

- **Landmark US pro-climate legislation** expected to benefit Bayou Fuels reference project in Mississippi

UK Jet Zero Strategy published setting out SAF mandate

ReFuelEU Aviation sustainable air transport initiative sets out minimum obligations to **increase the share of SAF** used at EU airports

[1] Revenue recognised in 2021 was from licensing fees and sales of reactors and catalyst for a customer contract awarded in 2017.
[2] Operating loss higher in 2022 compared to 2021 as gross profit of £3.4m was recognised in 2021.

Chairman's statement

Dear Shareholders,

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 technlogy 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 as a result of being re-optimised for maximum decarbonisation will set 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.

Chairman's statement

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.

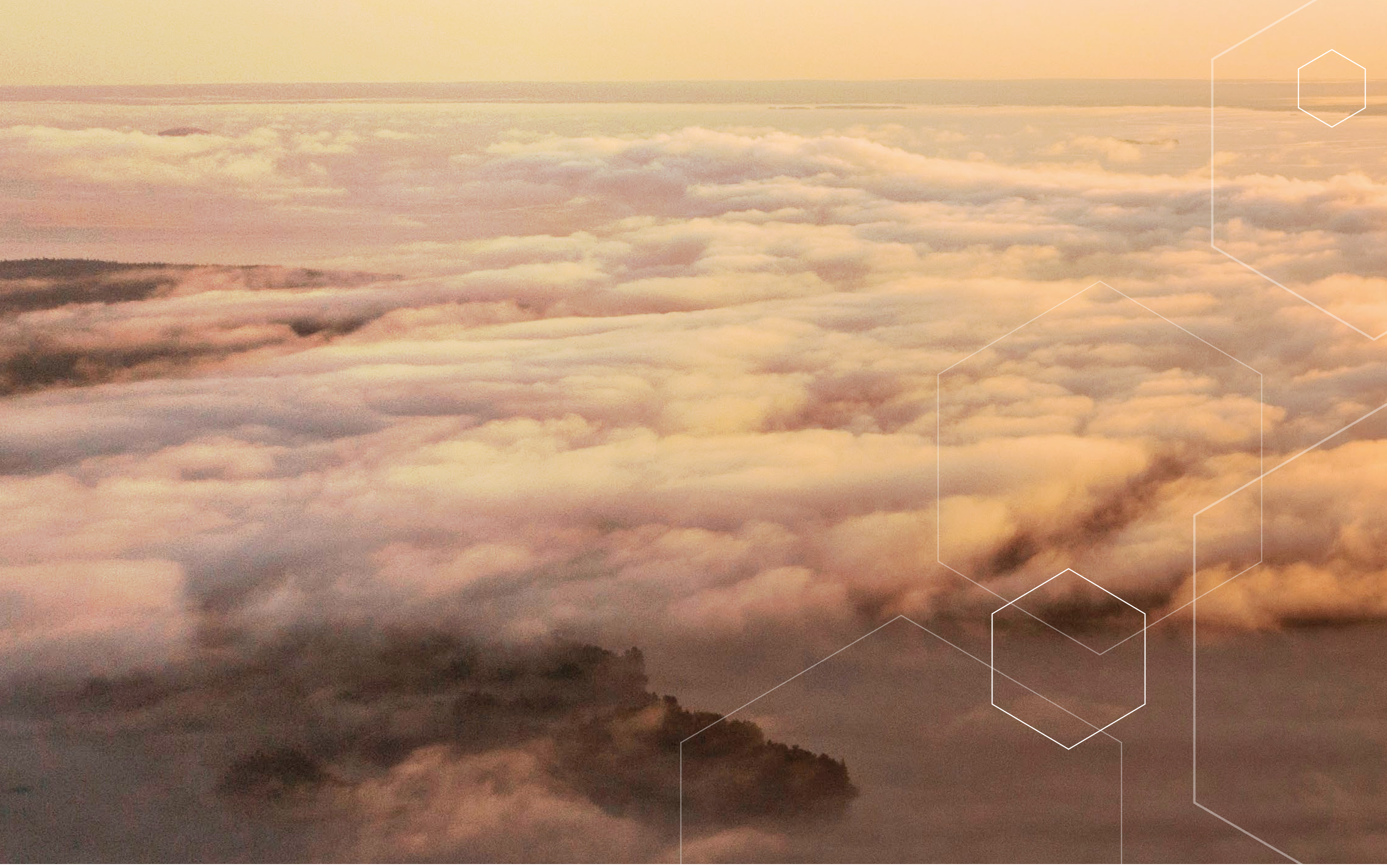
Darren Sanders joined us in September 2022 as VP Engineering based in our Houston office. Darren has 30 years of engineering and construction experience, holding diverse roles with responsibilities including process design, proposal and business development, and project management.

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 on pages 18 to 21, the Company requires new 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 are 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.

Philip Holland
Chairman
24 May 2023

Strategic Report


Transfer to A Boarding Gates
Baggage Claim
Arrivals
Transfer to International
Transfer to A Area Boarding Gate

Business model & strategy

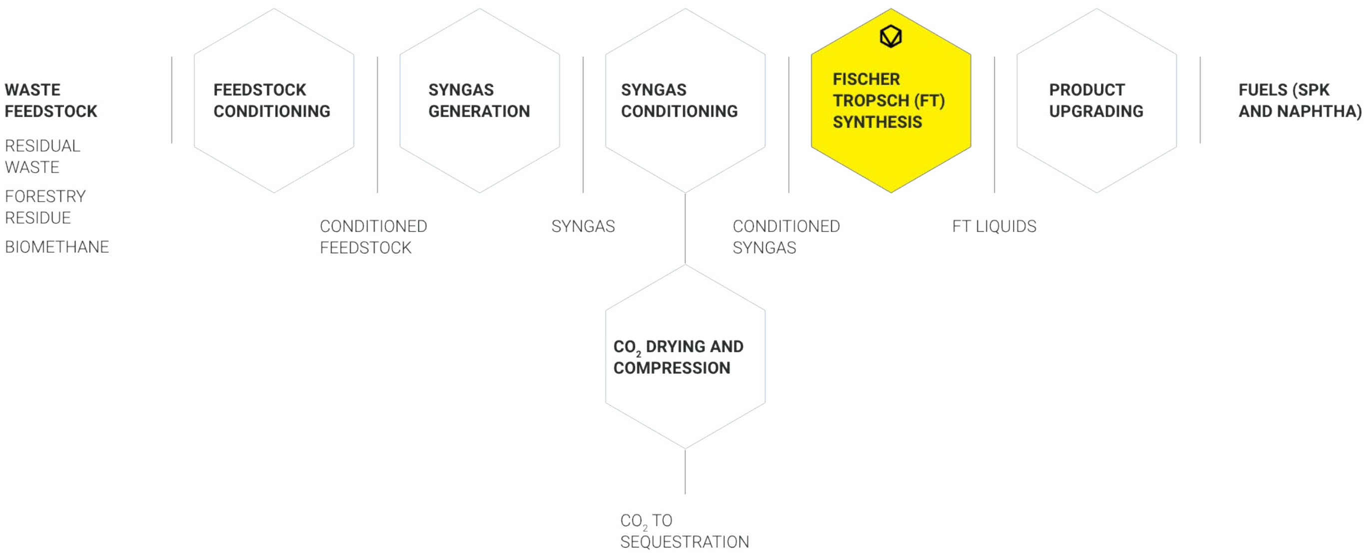
We are an international sustainable fuels technology company providing clients with one of the most sustainable routes to the production of drop-in SAF from a variety of waste materials.

We operate a capital light and scalable licensing model offering a technology solution for the development of synthetic sustainable fuels manufacturing via our proprietary patented micro-channel Fischer-Tropsch reactors and comprehensive biorefinery integrated technology package.

Our commercial model is focused on delivering our Fischer-Tropsch solution under site licence agreements then providing engineering services, reactors and catalysts over a plant's lifetime (c. 25 years), generating both upfront and recurring fees.

Velocys has a number of third-party clients to whom it supplies its technology; in addition, Velocys is developing two full-scale biorefinery reference projects: the Bayou Fuels project in Mississippi, US and the Altalto Immingham project in the UK. Velocys and British Airways ("BA") are partners in a Joint Development Agreement for the Altalto project and BA also holds an Option to invest 50% in Altalto Ltd.

The reference projects are being developed to accelerate adoption of the Group's technology and, following the completion of third-party construction capital project financing and commencement of the detailed engineering stage of these projects, the reference projects are expected to generate significant technology licensing revenue for the Company.



HOW WE WILL DELIVER VALUE

The Company's near-term ambitions are focused on creating sustainable shareholder value by growing the customer pipeline, progressing the biorefinery reference projects in the UK and US into FEED delivery and revenue generation.

The Company is also focused in the short-term on expansion of its commercial and business development functions, and engineering and reactor manufacturing to support the scale-up of its business.

Our aim is to become a leading provider of innovative SAF solutions to enable the decarbonisation of the aviation industry. We are moving towards achieving these ambitions whilst creating sustained shareholder value through a diverse client pipeline delivering significant one-off and recurring revenues.

CEO's statement

Dear Shareholders,

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. Within less than 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 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. Start-up 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 later in 2023. 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 pre-development 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.

CEO's statement

OUTLOOK

Velocys has signed a master relationship agreement ("MRA") and Altalto Immingham 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, 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, on 18 May 2023 Velocys announced a fundraise comprising 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 equity fundraise for working capital whilst the proposed additional funding from the convertible loan notes and/or further issuances of new ordinary shares will enable 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.

Henrik Wareborn
Chief Executive Officer
24 May 2023


TO FLIGHT MANUAL
MAX. PRESSURE
50 P.S.I.
MAX. SUCTION
11 P.S.I

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.

Note

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

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.

Financial review

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 4 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 25 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.

FUNDING

On 18 May 2023, Velocys announced a fundraise 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 (£12m). The result of the placing and retail offer was announced on 19 May 2023, raising a total of £6m (before expenses) and the open offer for up to £2m will run until 7 June 2023.

The total expected proceeds will enable the Company to:

- Complete the investment in the manufacturing capability to enable output of at least 12 reactors per year.
- Complete work on the Bayou Fuels reference project to the point of securing external investment for the FEED phase.
- Support process guarantees and equipment warranties required by clients.
- Strengthen the Company's business development function to build out the commercial pipeline.
- Provide the working capital to support the Company's projected running costs in line with plans to scale up the organisation.

MATERIAL UNCERTAINTY OVER GOING CONCERN

The factors considered by the directors in assessing the ability of the Company and parent company to continue as a going concern are discussed in the Directors' report on page 54.

Based on the assessment discussed on page 54, the directors have a reasonable expectation that the Company and parent company will have sufficient funds as a result of the overall fundraise process to support operational activities for not less than the twelve months from the date of approval of these financial statements. However, because the placing, retail offer and open offer is subject to shareholder approval at a General Meeting of shareholders on 8 June 2023 and the convertible loan notes are subject to a minimum fundraise target, at the date of signing the financial statements these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

The directors have prepared the financial statements on a going concern basis because they are confident that the fundraise process is sufficiently advanced at the date of signing the financial statements to be successful. The financial statements do not include the adjustments that would arise if the Company and Velocys plc were unable to continue as a going concern.

Philip Sanderson
Chief Financial Officer
24 May 2023

Environment, social and governance review

Our support for a greener and more sustainable future comes through the provision and delivery of our technology which is helping to decarbonise the aviation sector, currently one of the major contributors to global carbon dioxide emissions.

Our commitments extend beyond our technology with the recognition that we need to identify, mitigate and manage our ESG related risks and opportunities. This requires the implementation of a sustainability strategy that is appropriate for a business of our size and adheres to best practice guidelines. Given the rapidly developing nature of our environmental footprint, we believe it is important to maintain a flexible approach that allows our reporting to evolve in-line with our operational expansion. We intend to embed the necessary systems and processes over the course of the next few years and provide further disclosure around our net zero transition plans.

Velocys helps its clients have a positive social and environmental impact through the provision of sustainable aviation fuel. We have three major areas of focus.

SUPPORT THE GREEN ENERGY TRANSITION

There are currently circa. 25,000 commercial aircraft that generate 2-3% of global carbon emissions and pre-pandemic air traffic is forecast to double from 9 billion trips per year to 20 billion by 2040.

Velocys' technology adds significant IP and optimisation to the long-established Fischer-Tropsch production process which overcomes specific temperature and pressure challenges, thus enabling sustainable aviation fuel (SAF) to be produced safely and effectively at commercial scale.

Velocys' technology will help our client's meet industry and government carbon reduction targets while also supporting national fuel security initiatives. Furthermore, the produced fuel is cleaner burning than fossil-derived equivalents, with greatly improved air quality that has much lower sulphur oxide, nitrogen oxide and particulate matter emissions when combusted in conventional engines and turbines.

The fuels generated by our customers come from a variety of sustainable and responsibly sourced non-fossil-based solid feedstocks (woodchips and residual waste).

The feedstocks are abundant, and their use avoids adverse environmental impacts, such as landfill and the decomposition of non-processable wood on forest floors.

The synthetic fuel from our clients can be made with a negative carbon intensity, measured on a lifecycle basis. Our clients have the potential to generate negative carbon intensity fuels through the gasification of the cellulosic waste feedstock. This is achieved via the use of thermal energy coupled with the capture and sequestration of carbon dioxide emissions.

MANAGE CARBON EMISSIONS

As an organisation we are mindful of the impact of our operations and associated supply chains. We recognise a shared responsibility in the conduct of our business to minimise the depletion of natural resources, reduce waste and lessen our own contribution to climate change. There is an understanding that sustainability encompasses human and social aspects as well as environmental ones.

We monitor our manufacturing operations including catalyst, reactor, and supply chain, as well as our administrative operations for use of energy, travel, water, waste and usage of material resources.

In order to reduce direct CO_2 emissions, we restrict business air travel and through the recent experience of COVID-19 pandemic we have found that replacing travel for face to face meetings with video conferencing is more time and cost efficient whilst also reducing our carbon footprint.

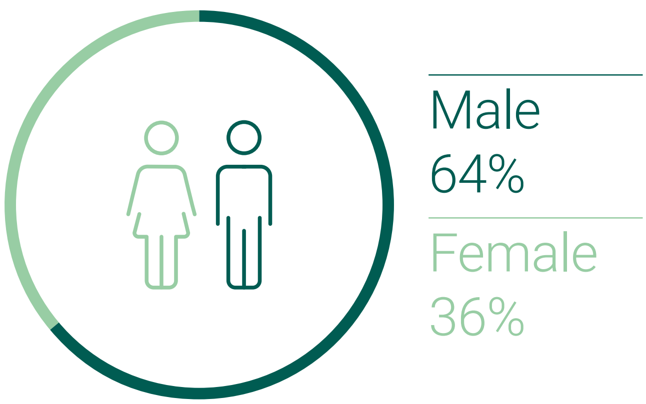
CARE FOR OUR PEOPLE

Velocys is committed to the welfare, safety and development of its employees and ensures the efficient delivery of company-wide support mechanisms and policies.

The Company encourages equality, diversity and inclusion amongst its workforce. Working at Velocys provides each employee with access to unique technologies, projects and facilities along with the opportunity to contribute and collaborate within an inclusive setting. Velocys is an equal opportunities employer and believes in respect, empowerment and creating an environment for each employee to reach their full potential.

This is supported by competitive compensation and generous employee benefit packages. Our recruitment and talent management practices ensure Velocys has a gifted and diverse resource pool to help meet its business needs.

On 31 December 2022, Velocys had 39 employees, 36% of whom were female (2021: 33%).



In 2022, Velocys maintained its record of no Lost Time Accidents ("LTA") for each of its UK and US sites, including no reportable injuries or illnesses. The Velocys sites in the US have logged over 223,410 operating labour hours without an LTA since July 2018.

The UK site continues to operate without any lost time, bringing the total number of operating labour hours without an LTA to over 454,812.

Velocys policies and procedures ensure regulatory compliance (OSHA in the US and HSE in the UK), including its safety policy and response programme for the escalation of any health and safety related issues.

SUSTAINABLE DEVELOPMENT GOALS

Much of how we approach the company's sustainability is driven by the UN's 17 Sustainable Development Goals ("SDGs") which encompass a blueprint for a more sustainable future. These goals guide us as to how we can make a difference and although we are a relatively small company, we consider ourselves to be in the process of making meaningful contributions to a number of these SDGs and the UN 2030 Agenda for Sustainable Development.

Below we highlight some examples of our alignment.

5 GENDER EQUALITY	We believe that social mobility and gender equality are important ways of improving diversity alongside the well-being of our people.
8 DECENT WORK AND ECONOMIC GROWTH	Our technology solution allows biorefineries to be built to produce sustainable synthetic fuels, which in turn promotes economic growth. Locally, the biorefineries will bring in investment, create jobs and boost the local economy through long-term employment and wider supply chain benefits.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Global customers can benefit from our unique technology offering to positively impact their industry and utilise infrastructure, mobilise people and give back to society.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Biogenic, non-recyclable residue from commercial, household and forestry can be converted into high value synthetic aviation fuel using the Velocys FTS technology replacing scarce and polluting fossil crude oil as feedstock for fuel production
13 CLIMATE ACTION	Sustainable fuels burn efficiently and significantly reduce greenhouse gas emissions and harmful particulate matter aiding better air quality and community health.

Key performance indicators and milestones

Our ambition is to become a leading provider of advanced SAF solutions to enable the decarbonisation of the aviation industry by focusing on technology innovation.

Our strategy to achieving this is centred around advancing the two full scale biorefinery reference projects in the US and UK to generate revenues, accelerate technology adoption and define a blueprint for future clients.

During 2022, the Company focused on the following corporate objectives to measure the Company's success in advancing towards these strategic goals.

- Driving technology adoption through advancing the reference projects
- Growing the business development pipeline
- Delivering a manufacturing solution to support the growth plan
- Maintaining a capital light business model and the most efficient use of working capital
- Continuing health and safety and risk management focus across the business

ADVANCING THE BAYOU FUELS, US REFERENCE PROJECT TO THE POINT OF LAUNCHING THE SERIES A FINANCING FOR FEED

Achieving the milestone of launching the Bayou Fuels Series A financing has been a key priority for several years, and required the confirmation of the policy framework in the US to provide a clear position on the project economics investors require. The Inflation Reduction Act became law in August 2022.

Velocys has re-optimised the design of the Bayou Fuels facility for maximum decarbonisation to a negative carbon intensity of -375g CO_2e/MJ (previously -144g CO_2e/MJ). This optimisation marks a significant improvement in the negative carbon intensity score of the plant with the potential to increase future revenue for Bayou Fuels and enhance the attractiveness of the project for third party project funding.

The offtake arrangements with Southwest Airlines and IAG, signed in late 2021, were updated following the implementation of the Inflation Reduction Act.

An RFP process was launched in Q4 2022 with a number of global investment banks to identify a strategic financing advisor to appoint in early 2023. Post year end, the selected advisor was appointe

ADVANCING THE ALTALTO IMMINGHAM, UK PROJECT AND SECURING LONG TERM CONTROL OF THE IMMINGHAM SITE

Pre-FEED work funded by the Green Fuels Green Skies grant (awarded in 2021) was completed in June 2022.

In March 2022, Velocys received £9.75 million from Blackmead Infrastructure Limited, a subsidiary of Foresight Group Llp ("Foresight") as consideration for Foresight's purchase of Rula Developments Immingham Limited ("RDIL"), which enabled the Company to settle the £7.25 million deferred consideration due from the acquisition of RDIL in December 2021. Also in March 2022, the Company signed a Call Option agreement with Foresight giving it the right to re-purchase RDIL over a period of up to three years from the effective date of 23 March 2022. British Airways extended its option agreement over Altalto Limited in March 2022 and post year end has extended it to March 2024.

In December 2022, the Company was successful in obtaining a grant award of £27 million from the DfT's Advanced Fuels Fund to be used for the completion of the project FEED for Altalto.

GROWING THE BUSINESS DEVELOPMENT PIPELINE

Andy Bensley was appointed SVP Global Business Development and Technology Delivery in February 2022.

During 2022, the Company has reviewed all elements of its business model and revenue generation plans and has refocused its efforts on opportunities with the most advanced policy framework whilst remaining flexible in terms of the scale of its technology offering to attract a range of clients. There has been a significant increase in customer enquiries, however the Company recognises that further investment in its business development and engineering capacity is needed to fully service these requests.

Feasibility engineering studies are ongoing with both biorefinery and advanced power-to-liquids developers.

A grant of £2.5 million for a new e-fuels project, also awarded under the AFF in December 2022, provides a diversification opportunity to deploy Velocys FT technology and work with strategic partners.

DELIVERING A MANUFACTURING SOLUTION TO ENABLE THE PRODUCTION OF 12 REACTOR CORES PER ANNUM

Our strategy is to house the reactor core assembly operation in-house, and produce cores sufficient to enable the production of 12 commercial scale reactors per year.

Site selection was undertaken during Q1 2022 resulting in signing an agreement for a 52,000 square footage new build in Columbus, Ohio and agreeing the terms of a 15-year lease.

Construction of the facility was completed during Q4 2022 and has proceeded into the internal fit-out stage during Q1 2023 and the lease commenced in May 2023.

Orders were placed during 2022 for long lead time equipment required to complete the reactor core production line which will be delivered in 2023.

MAINTAINING A CAPITAL LIGHT BUSINESS MODEL AND THE MOST EFFICIENT USE OF WORKING CAPITAL

Our strategic decisions are strongly influenced by the need to preserve the Company's cash resources and Velocys seeks to maintain a capital light business model by keeping investment in capital assets and reference project financing to a level that is manageable but supports its commercialisation strategy.

The financing arrangement with Foresight to secure control of the Immingham site for the Altalto project enabled Velocys to be repaid £2.5 million and maintain an option over a three year period from March 2022.

Whilst the Series A funding did not launch during 2022, partly due to the delay in US legislation, the Company made good progress in preparing the project and initiating the financing advisor selection process in Q4 2022 to enable this key milestone (to raise external investment for completion of the FEED) to be achieved in 2023.

The Company seeks leasing arrangements and uses outsourced services to maintain a flexible corporate cost base. The main objective in 2022 was to secure a new leasehold premises for the reactor core manufacturing operations (as per above).

MAINTAINING HEALTH AND SAFETY STANDARDS AND INCREASED FOCUS ON RISK MANAGEMENT ACROSS THE BUSINESS

We have a continuous improvement culture as it relates to health and safety ("H&S") and our performance in 2022 continues to indicate the beneficial impact of our H&S strategy, H&S Committee, training initiatives and employee engagement.

There were no Lost Time Accidents or near misses at our UK and US sites, including no reportable injuries or illnesses, during the year.

A new corporate travel policy was rolled out with a focus on safety and well-being of our employees.

Risks and mitigation

OUR APPROACH TO RISK

The Board is responsible for the risk framework and aims to ensure that the Company's ability to achieve its strategic objectives outweighs its risk exposure. However, the Company's risk management programme can only provide reasonable, but not absolute, assurance that principal risks are managed to an acceptable level.

The Audit Committee and the Risk and Sustainability Committee play a central role in supporting the Board in the review of the Company's risk and internal control processes, and in overseeing an organisation-wide approach to risk identification, management and mitigation. The Audit Committee primarily focuses on the Company's financial risks and has oversight of all risks for the purposes of ensuring appropriate disclosure in the Annual Report and Accounts.

The Risk and Sustainability Committee reviews the non-financial risks which are categorised as strategic, operational or reference project specific risks as well as reflecting on the wider environment to identify emerging risks.

THE VELOCYS RISK MANAGEMENT PROCESS

The executive directors are principally responsible for identifying, managing and mitigating the risks to the Company. The Company has a robust risk management framework that spans all its functions, and the Company's risk management policy sets out how risks are identified, assessed, mitigated, monitored and reported.

The Company maintains a detailed risks register which is reviewed with the committees on a quarterly basis. The risk assessment of inherent and mitigated risk levels determine which risks could have a potentially material impact on the Company's long-term performance and delivery of its strategy and are therefore reported as our principal risks.

Emerging risks that may impact the Company's operations and performance are also considered on a regular basis. In 2022, the impact of the invasion of Ukraine and the potential for energy shortages / power supply interruption, and potential health and safety risks related to the relocation of the Company's assets from existing sites to the new facility in Ohio were monitored and will continue to be assessed by management on a regular basis.

Risks and mitigation table.

No change Improving Worsening

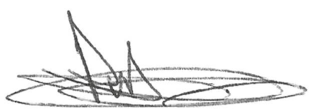
Principal risks	Risk description	How this risk is mitigated	Trend
Access to capital	Periodically, we have a requirement to raise additional capital from current and new shareholders in order to deliver upon our strategic goals and to reach a consistently cashflow positive position. A significant downturn in the macroeconomic environment or uncertainty in capital markets, may impact our ability to obtain sufficient equity financing in a timely manner. This could impact Velocys' ability to continue as a going concern. This risk is balanced by the Company being in a market sector where investor preferences and sentiment influenced by environmental, social and governance (ESG) considerations may have a positive impact on our ability to raise capital.	• Regular engagement with existing and potential shareholders • Appointment of experienced brokers and other professional advisors to support a corporate fundraise • Monthly cash flow forecasting with prudent assumptions to manage short-term cash runway • Long-term corporate forecast demonstrating positive cash flow with prudent assumptions on client pipeline • Exploring alternative sources of funding	
Reference project financing	The Company's business plan depends on progressing two reference projects that will help grow the customer base and generate annually recurring revenues. If we are unable to secure, or there is a delay in securing, sufficient strategic project investment to complete the detailed engineering phase (FEED), there is a risk that the projects do not proceed to project financing, FID and construction. Grant funding awarded for Altalto in November 2022 is subject to matched funding and achievement of various project milestones. In the event that these grant conditions are not met, the remainder of the grant may not be available to the project and additional third party financing would be required.	**Bayou Fuels Project** • Significant advancement in government policy support through the Inflation Reduction Act of 2022 (see 'Regulatory framework for decarbonisation') • Optimisation of the project economics and reducing specific project risks ahead of launching Series A financing • Levee construction for the project site in Natchez, Mississippi in progress • Delivered revised engineering design that lowered the prospective carbon intensity score of the fuel to be produced • Agreement with Oxy Low Carbon Ventures for Capture and Sequestration (CCS) • Long term offtake agreements updated to address details of US Inflation Reduction Act 2022 legislation • Appointed leading global financial advisor to launch the Series A funding in 2023	
		Altalto Project • Secured long term control of project site in Immingham with option agreement with Foresight Group LLP • Grant award of £27m from the DfT's Advanced Fuels Fund to fund 50% of FEED • Private sector matched funding being sought to support completion of FEED by March 2025 • Appointed leading global financial advisor to support target of raising balance of matched funding • Licensor agreements and engineering service agreement with Bechtel to deliver FEED and grant milestones	
Technology delivery	*Technology performance* Our FTS solution may not perform as expected or at full conversion rate. In addition, catalysts might not perform as expected or for as long as expected. *Technology integration and delivery* Biofuels plants incorporate technology supplied by other licensors, which may not function or integrate as envisaged with our technology and may lead to lower than expected performance.	• Operation of our technology at commercial scale and successful demonstrations on a variety of feedstocks have provided comprehensive learnings for performance optimisation • Post operative studies in catalysis enable detailed understanding of operating conditions affecting catalyst longevity • Scientific Advisory Board with industry leading expertise in catalysis established in 2022 to enhance in-house capability • Appointment of Bechtel as global engineering partner with objective of developing an EPC execution model for delivery of sustainable fuel plants • Technology partners (other licensors) have been carefully selected with commercial scale references and experience on representative feedstock	

Risks and mitigation table.

Principal risks	Risk description	How this risk is mitigated	Trend
Organisation scale-up	Successful execution of our growth plan depends upon our ability to retain and attract highly skilled employees, including in engineering, commercial and business development, and manufacturing. An increased scale requires investment in business systems, processes, internal controls and operating practices to ensure they remain capable of supporting the increased level of operational activities. There is a risk that the organisation scale up does not proceed at the pace required, which could result in delays to achieving the Company's key milestones and heighten other operating risks such as health and safety.	• Management team with experience of change management in high growth organisations • Specialist recruitment advisors engaged to support the resourcing plan • Succession planning at board level and senior leadership team • Competitive remuneration, comprehensive employee benefits programme and stock option scheme	
Regulatory framework for decarbonisation	Our reference projects and our clients are critically dependent on government policy support to secure a significant explicit or implicit revenue for avoided CO_2 emissions. If policy support for mitigation of climate change, including decarbonisation of fuels, wanes, this could adversely affect our ability to secure financing for the reference projects. The reference projects are dependent on the provision of tax credits in the US and UK respectively in order to maintain plant revenues above operational costs. Any changes to relevant tax codes and / or legislation that are unfavourable, could adversely affect our potential earnings.	• Policy developments in the US, UK, and EU during 2022, demonstrate an increasing pace of regulatory support for SAF and impact favourably on the Company's two reference projects and ability to raise development capital for the projects • The US Inflation Reduction Act of 2022 allocates $369 billion to reducing greenhouse gas emissions and incentivises expanded production and use of domestic clean energy. 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 • As part of the US Inflation Reduction Act of 2022, the producer tax credit 45Z legislation incentivises the total amount of avoided carbon rather than the volume of sustainable fuel supplied, and therefore prioritises technology which offers a direct route to negative intensity fuels. During 2022, Bayou Fuels significantly improved its carbon intensity score through the provision of a biomass boiler renewable power solution with carbon capture and sequestration • The UK Government Department for Transport launched its "Jet Zero" strategy in July 2022, which includes an ambition for a minimum of five commercial-scale SAF plants to be under construction in the UK by 2025, and a mandate for at least 10% SAF to be blended into conventional aviation fuel by 2030 to reduce greenhouse gas emissions. In March 2023 the Government published its second consultation setting out options for the proposed buy-out price • In December 2022, the Altalto project received a government grant award of up to £27 million from the Advanced Fuels Fund. The £165 million Advanced Fuels Fund provides grants to support the development of commercial-scale SAF plants that are at an advanced stage, enabling them to become ready for investment and construction	
Manufacturing capability	We have extensive experience of managing contract manufacturing partners to produce our micro-channel FT reactors on a small scale, however our strategy is to control the reactor core sub-assembly process in-house. A new facility in Ohio, US has been constructed during 2022, enabling the fit-out and commissioning of manufacturing operations in HY2 2023. Specialist equipment used in the fabrication of reactor cores has been in storage at a third party site for 2 years, and therefore there is a risk that it may not function reliably when relocated and commissioned during HY2 2023. If we are unable to meet our quality assurance criteria, full scale commercial production would be delayed and therefore delivery to projects may be delayed. Further unplanned complications in the manufacturing supply chain could lead to delays, potentially triggering liquidated damages provisions in supply contracts.	• Overseen the construction to ensure all required power, health and safety, IT and operational requirements for manufacturing addressed • Long lead-time purchase orders for specific equipment upgrades placed during 2022 • In-transit insurance policy to cover the risks related to the relocation of specialist equipment • Hiring, training and qualification plans in place for the specialist operators required in H2 2023 • Manufacturing control systems designed and being tested	

Principal risks	Risk description	How this risk is mitigated	Trend
Commercial execution	The adoption of a new technology, with high capital requirements is inherently difficult to predict and there is a risk that commercial roll-out may be slower than anticipated. If we cannot convert pipeline opportunities into contractual commitments for purchasing our licence and hardware in a timely manner, we will have spare capacity in our production facility and revenues will not be as high as predicted.	• Increase in business development and engineering resources to support client enquiries • Development of commercial strategy and revenue model focussed on providing clients with integrated technology package • Prioritising opportunities that generate maximum decarbonisation earnings • Completing paid feasibility studies with potential clients	
Intellectual property	While the Company's core technology is protected by a robust family of patents, unauthorised third parties may receive or obtain confidential information about the Company's core technology, exposing the Company to competitors obtaining this information and gaining a competitive advantage, which could adversely affect the Company's business, financial condition, results or future operations. The Company could unwittingly infringe IP rights of others, which could limit the Company's ability to deliver its technology to customers.	• IP lawyers engaged for management of existing portfolio including alignment with corporate strategy • Active renewals programme and internal review process to capture and exploit new patent opportunities • Freedom-to-operate searches undertaken to minimise the risk of IP infringement by the Company • Technical security measures against data loss through a systems breach are in place and regularly reviewed and updated • Strict non-disclosure and use agreements signed with all third parties receiving confidential information	
Digital infrastructure, cyber security and data protection	Breach or failure of our or third parties' digital infrastructure or cyber security, including loss or misuse of sensitive information could damage our operations, increase costs and damage our reputation. Threats to the security of our digital infrastructure and that of key third parties upon which we rely to operate our business continue to evolve and have been heightened by the geopolitical environment and COVID19 ways of working in the past two years.	• IT security protection tools deployed • Ongoing detection and monitoring of threats • Periodic staff training on cyber security threats • Corporate policies in place for data protection governing use of the Company's systems and access to information • Cyber security insurance maintained	
Sustainability and climate change	If our shareholders and other stakeholders do not understand the direct and indirect contributions the Company makes as part of its sustainability goals, this could adversely affect the Company's reputation and long-term value. If the Company fails to obtain a sustainability rating from ratings agencies, this could impact on its ability to raise capital (see 'Access to capital'). The risks associated with climate change and the need to align with a carbon-neutral economy, affect the Company's current operations and longer-term strategic goals. Physical effects of climate change, such as adverse weather events, could cause business disruption through damage to our own facilities and those of our clients and suppliers. Taking decisions to reduce our own carbon footprint could have financial consequences, such as increasing the price of materials used in production and certain running costs.	• Risk and Sustainability Committee provides governance to the Company's sustainability agenda • Ongoing engagement with shareholders • Updated the corporate website detailing the Company's sustainability objectives and opportunities • We have assessed the locations of our current facilities to be relatively low risk from natural disasters and weather events, however we have experienced some minor disruption to employees caused by specific adverse weather events and continue to manage these risks as part of our overall health and safety practices • As the Company is actively engaged in expanding its manufacturing capacity, assessing climate-related risks is a key part of management's decision making to ensure resilient supply chain, production and logistics processes	

The Strategic Report, as set out on pages 10 to 29 has been approved by the Board and signed on its behalf by



Philip Holland
Chairman
24 May 2023

Corporate Governance

Corporate governance report

INTRODUCTION

The Company follows the QCA Corporate Governance Code ("QCA Code"), published by the Quoted Companies Alliance ("QCA"), which sets out a minimum best practice standard for small and mid-size quoted companies, particularly AIM companies.

Companies whose securities are traded on the t Market AIM market of the London Stock Exchange are not required to comply with the principles and provisions of the UK Corporate Governance Code 2018 ("Code"). For example, the Company does not comply with:

- FCA Listing Rule 9.8.6R (which includes the 'comply or explain' requirement).
- FCA Disclosure Guidance and Transparency Rules ("DTR") Section 7.2 (which set out certain mandatory disclosures).
- Competition and Markets Authority's Final Order 1 (for UK incorporated FTSE 350 companies only).

The following information is provided to describe how the Company applies the principles of the QCA Code and explain any departures from the specific provisions of that code.

The QCA's Ten Principles of Corporate Governance

The ten principles of corporate governance, which are set out under three headings in the QCA Code – Deliver Growth, Maintain a Dynamic Management Framework, and Build Trust, are applied by the Company as follows.

DELIVER GROWTH

1. Establish a strategy and business model which promote long-term value for shareholders.

The Board is responsible to shareholders for setting the Company's strategy and overseeing its execution, and for the overall management, control and performance of the business. Velocys' strategy and business model is set out in the Strategic report on pages 14 to 15.

2. Seek to understand and meet shareholder needs and expectations.

The Board considers effective communication with shareholders to be very important and encourages regular dialogue with investors.

At the Company's Annual General Meeting, the whole Board, including the Chairman and the Chief Executive Officer are available before and after the meeting for further discussions with shareholders.

The Chief Executive Officer and the Chief Financial Officer attend meetings with shareholders and analysts on various occasions during the year, primarily following the Company's annual results and interim results announcements. Relevant feedback from shareholder discussions is advised to the Board. Other members of the Board have also either met or consulted with shareholders from time to time. The Board considers that their policy on shareholder engagement has resulted in the considerable support demonstrated by major shareholders since the Company was originally admitted to AIM in 2006.

The Board responds promptly to questions received, which may be sent to info@velocys.com.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success.

Velocys is committed to being a good employer and endeavours to train and develop all of our employees, to pay them fair market value and to maintain a safe working environment. We are also committed to equal opportunities for all our employees.

We have a duty to limit the environmental impact of our own operations and are careful to monitor and improve their environmental impact. Velocys is committed to the principles of the Modern Slavery Act 2015 and the abolition of modern slavery and human trafficking and has adopted a Modern Day Anti-Slavery Statement. Further information on our corporate social responsibility can be found in our Environmental, social and governance review on pages 22 to 23.

There is an ongoing dialogue with our technology partners, customers, suppliers and other stakeholders which is continuously fed back into our knowledge base in relation to projects under development and, where relevant, integrated into the Company's strategy and business model.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation.
The Company employs directors and personnel with the appropriate knowledge and experience for a business active in its field of operations and undertakes regular risk assessments and reviews of its activities.

The Risk and Sustainability Committee is responsible for reviewing the Company's principal risk management policies and for the ongoing development of the Company's risk register. The Audit Committee is responsible for oversight of the internal financial controls and financial risks.

Further information on the Company's approach to risk management can be found on page 26. The risk register is reviewed by the aforementioned committees and reviewed with the Board on a quarterly basis.

The principal risks and uncertainties that are considered to have a potentially material impact on the Company's long-term performance and delivery of its strategy are set out pages 26 to 29.

MAINTAIN A DYNAMIC MANAGEMENT FRAMEWORK

5. Maintain the Board as a well-functioning, balanced team.
The Board comprises a Chair and three part-time non-executive directors with relevant experience to complement the two full-time executive directors and to provide an independent view to the executive directors. Details of the Board can be found in the Corporate Governance report on pages 35 to 36. A time commitment of up to 4 days per month is expected of the non-executive directors.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

	Scheduled Board meetings	Special Board meetings	Audit Committee	Risk & Sustainability Committee	Remuneration Committee	Nomination & Governance Committee
Number of meetings held in 2022	**9**	**2**	**4**	**4**	**6**	**4**
Attendance* by:						
Philip Holland	100%	100%	–	100%	100%	100%
Darran Messem	100%	100%	100%	100%	100%	100%
Ann Markey	100%	100%	100%	100%	–	–
Tom Quigley	100%	100%	100%	75%	100%	–
Henrik Wareborn	100%	100%	–	–	–	100%
Philip Sanderson	100%	100%	–	–	–	–
Andrew Morris	100%	100%	–	–	–	–

Notes

* The attendance percentage relates only to applicable meetings (for example, percentages do not include meetings held prior to appointment or following the resignation of a director).

Corporate governance report

At the time of Philip Holland's appointment as Company Chairman, he met the independence criteria set out in the UK Corporate Governance Code. Thereafter the test of independence is not appropriate in relation to the Chairman. The Board regards each of the non-executive directors as being fully independent.

The roles of the Chairman and the Chief Executive Officer are separated, with clear written guidance to support the division of responsibilities. The role of the Senior Independent Director is also clearly set out.

The Chairman is principally responsible for leadership and effectiveness of the Board, for corporate governance matters, setting the Board agenda, ensuring adequacy of information flow to the Board, that due consideration is given to strategic issues, and promoting a culture of openness of debate.

The Chief Executive Officer is primarily responsible for the management of the business and implementation of the Company's strategy and policies, maintaining a close working relationship with the Chairman, and leading the Executive Committee.

6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities.
The Board believes that it contains the necessary mix of experience, skills, personal qualities (including gender balance) and capabilities to deliver the strategy of the Company for the benefit of the shareholders over the medium to long term. This is an area which is maintained under constant review.


Velocys headquarters in Oxford, UK

PHILIP HOLLAND, CHAIRMAN

Philip was appointed as Chairman on 10 December 2019, and previously served as Senior Independent Director from 1 January 2019. Philip holds a BSc in Civil Engineering from Leeds University and a MSc in Engineering and Construction Project Management from Cranfield School of Management. He has extensive experience in managing large scale oil and gas projects around the globe. In 1980, he joined Bechtel Corporation and managed major oil and gas projects in a wide range of international locations. In 2004, he joined Shell as vice president of projects, Shell Global Solutions International.

In 2009, Philip became Executive Vice President Downstream Projects in Shell's newly formed projects and technology business and in 2010 he was appointed as Project Director for Shell's Kashagan phase 2 project in Kazakhstan, and subsequently the Shell/QP Al Karaana petrochemicals project. Since 2013, he has operated as an independent project management consultant.

Philip joined the Board of Enquest plc in August 2015, where he chairs its Safety, Climate and Risk Committee and is a member of its Remuneration Committee. Philip also joined the board of KazMunayGas in August 2020, chairing the Nomination and Remuneration Committee and the Strategy and Portfolio Management Committee.

HENRIK WAREBORN, CHIEF EXECUTIVE OFFICER

Henrik was appointed Chief Executive Officer and Executive Director in November 2018, having acted as a consulting adviser to the Company and provided services equivalent to those of a Chief Commercial Officer since March 2017. Henrik was formerly a Managing Director with Natixis S.A. (both in the UK and North America), and previously Global Head of Crude Oil Sales and Trading at BP plc.

Henrik's experience prior to this included roles as Executive Director at Hess Energy Trading Ltd, and Executive Director at Goldman Sachs International, London. His expertise includes investment banking, commodities trading, fundraising, and commodity finance. Henrik has an MBA from INSEAD and graduated from the Stockholm School of Economics with a BA in finance and economics.

PHILIP SANDERSON, CHIEF FINANCIAL OFFICER

Philip was appointed Chief Financial Officer and Executive Director in June 2022. Philip has over 30 years of international finance and commercial expertise in advanced fuels and lubricants, large scale capital project execution and low carbon energy in a range of divisions and affiliates of Shell Plc.

Philip has a strong track record in commercial delivery, strategic planning, corporate governance and consistently driving shareholder value. His experience includes roles in business partnering, financial and risk management, governance and assurance, and major transaction engagement. Additionally, he has extensive experience of capital project development and project financing. Philip holds a BA (hons) in Mathematics from The University of Oxford and is an Associate of the Chartered Institute of Management Accountants.

Corporate governance report

DARRAN MESSEM, SENIOR INDEPENDENT DIRECTOR

Darran was appointed to the Board of Velocys in January 2019, as Senior Independent Director on 30 September 2021 and chairs the Risk and Sustainability Committee. Darran has 30 years of commercial experience in energy, transport and sustainable development, with particular focus on renewable energy and low-emission transport. He has served as Managing Director Certification and International Director at the Carbon Trust, Vice President Fuel Development at Shell, and General Manager Market Development at British Airways.

At Shell he worked on the removal of lead and sulphur from fuel in the UK, and the development of Shell's global biofuel business, where he worked on a number of biofuel technologies including gasification and Fischer-Tropsch synthesis. He was Shell's nominated Director, and subsequently elected Chair, of Iogen Energy. From 2014 to 2020 he served as Chair of the Low Carbon Vehicle Partnership, (changed in 2021 to the Zero Emission Mobility Partnership), where he remains Director. From July 2019 to April 2022 Darran was a member of the Board of BRE (formerly the Building Research Establishment) and Chair of the Remuneration and Nominations Committee. In January 2022 Darran joined the Board of Shoreham Port Authority as a Non-Executive Director and joint chair of the Audit Committee.

ANN MARKEY, NON-EXECUTIVE DIRECTOR

Ann was appointed to the Board of Velocys in July 2021, and chairs the Audit Committee. Ann is a Fellow of Chartered Accountants Ireland, and joins the Board as an experienced business leader and Non-Executive Director. She has extensive experience in the electricity industry, renewables investment and infrastructure development, as well as decarbonisation policy in the renewables/energy efficiency sector.

Ann is currently a Non-Executive Director of Foresight Solar Fund Limited (FSFL), the London-listed renewable energy investment company, which has a diverse portfolio of ground-based solar PV and battery storage assets in the UK, Spain and Australia. She is also a Non-Executive Director of The Land Development Agency (the commercial company established by the Irish Government to coordinate and develop lands within public controls for affordable and social housing) and a Non-Executive Director of the Sustainable Energy Authority of Ireland (SEAI), the state body responsible for the delivery of a number of key decarbonisation objectives for Ireland. In addition, Ann is a Non-Executive member of the Audit and Risk Committee of the Health Service Executive (HSE), Ireland's national public health service provider and, until June 2021, was a Non-Executive Director of the Digital Hub Development Agency (DHDA), Ireland's largest cluster of digital companies.

Ann was previously a Senior Executive with ESB, a leading Irish utility, and with Greencoat Capital, a leading renewable energy investment manager.

TOM QUIGLEY, NON-EXECUTIVE DIRECTOR

Tom was appointed to the Board of Velocys in July 2021 and chairs the Remuneration Committee. Tom is an ACA qualified accountant and joins Velocys as an experienced Non-Executive Director within the waste-to-clean-energy and financial investment sectors. Tom is currently a Non-Executive Director of EQTEC plc, the AIM-listed waste gasification technology company. He also holds Non-Executive roles with Skipton International Ltd, an offshore savings bank and mortgage lender and Barchester Healthcare. Furthermore, Tom is currently Director and Chair of the Audit Committee of The States of Jersey Development Company and an Advisory Board Member of UBS Channel Islands.

Tom has had a successful career in the City of London in corporate finance as Managing Director for Close Brothers and ING Barings. Subsequently Tom held positions at Terra Firma Capital Partners, WP Carey and ETF Securities bringing with him a wealth of finance experience and City contacts.

INTERNAL ADVISORY RESPONSIBILITIES

The Company Secretary is responsible for advising the Board on governance matters, for ensuring that Board procedures are followed, and that the Company complies with applicable rules and regulations. All directors have access to the advice and services of the Company Secretary. An agreed procedure exists for directors in the furtherance of their duties to take independent professional advice. During 2022, no director sought independent legal advice pursuant to the policy.

The Company regularly reviews the ongoing training requirements of directors as part of the annual board evaluation process. Directors keep their knowledge and skills up to date through a combination of industry contact, reading of relevant material and, where appropriate, formal training courses. The Board has agreed that relevant training courses should be made available to all directors, and a formal record of training has been implemented.

There is a process for ensuring that any new director receives advice, including from the Company's nominated adviser and external lawyers where appropriate, on his/her responsibilities as a director of an AIM registered company. The Board also ensures that any new appointee benefits from an induction programme.

7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement.

An annual evaluation of the Board and its committees is carried out by the Company Secretary, taking the form of comprehensive questionnaires which provide all directors with an opportunity to score their opinion on a series of questions in relation to inter alia the constitution, execution and performance of the Board and the four Board sub-committees, and to comment on procedures or any relevant matters. Average scores for each question are measured against relevant scores in the previous two years to help identify trends, and are also assessed in absolute terms. The scoring and any comments are assimilated into a report on an unattributed basis, and the results of the evaluation are considered by the Board and each sub-committee in open session.

Where appropriate, actions arising from such reviews are implemented. Previous evaluations have resulted in improvements to timing and quality of management information; the provision to the Board of more detailed information on individual projects; improvements to the structure and workings of committees; the placing of a greater emphasis on strategic initiatives/business risk and an increased emphasis on training. Following the 2022 Board evaluation, opportunities for improvement were identified and will be adopted going forward.

The Senior Independent Director carries out an annual performance evaluation of the Chairman which takes into account the views of all directors. Succession planning at Board and committee level is formally reviewed on an annual basis, and the Board has reviewed a succession plan for all Board members and senior management of the Company. In accordance with best practice, all directors are proposed for re-appointment at the Annual General Meeting, and due consideration is given by the Nomination and Governance Committee as to whether individual directors are recommended for re-election.

8. Promote a corporate culture that is based on ethical values and behaviours.

The Board believes that the business culture is consistent with the Company's objectives, strategy and business model as set out in the strategic report and the description of principal risks and uncertainties.

The Board ensures that the Company has the means to determine that ethical values and behaviours are recognised and respected through the adoption of appropriate policies, including an Anti-corruption and bribery policy, a Whistleblowing policy, a Diversity inclusion policy and a Modern day anti-slavery statement. Further details of these policies and statements are available on the Company's website.

In addition, in response to the Market Abuse Regulations ("UK MAR"), which came into force on 3 July 2016, and which apply to AIM companies, the Company has adopted a Share Dealing Policy and Dealing Code which applies to all directors and employees of the Company.

Corporate governance report

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The Board meets at least six times a year with a formal schedule of matters reserved for its decision. The Board has also established a schedule of delegated authorities, which are reviewed to ensure they are commensurate with the level of the Company's development. The governance structure in place is considered to be appropriate for the foreseeable future but will be evolved in line with the Company's growth plans.

BOARD COMMITTEES

The minutes of the Audit, Risk and Sustainability, Remuneration, and Nomination and Governance committees are circulated to the Board. The committee chairs also report to the Board on the outcome of committee meetings at the subsequent Board meeting. All of the committees annually review and re-adopt their terms of reference. The committees have the following roles:

Audit Committee: The members of the Audit Committee are Ann Markey (Chair), Darran Messem (Senior Independent Director) and Tom Quigley (Non-Executive Director).

Meetings are held not less than four times a year and are based on the work programme set out in the Audit Committee Guide published by the QCA.

Under its terms of reference, which can be found on the Company's website, the Audit Committee reviews, inter alia, the Company's audit planning, its financial risk management systems and processes including the effectiveness of internal controls, the appropriateness of accounting policies and financial reporting, provides a forum through which the external auditors report, and reviews and monitors their independence and the provision of additional services. It normally meets at least once a year with the external Auditors without the executive directors present.

Further information is set out in the Audit Committee report, which can be found on pages 40 to 41.

Risk and Sustainability Committee: The members of the Risk and Sustainability Committee are Darran Messem (Chair), Philip Holland (Company Chairman), Ann Markey (Non-Executive Director) and Tom Quigley (Non-Executive Director). Meetings are held not less than four times a year.

Under its terms of reference, which may be found on the Company's website, the Risk and Sustainability Committee advises the Board, inter alia, on the Company's overall risk appetite, tolerance and strategy, and on the principal and emerging risks the Company is willing to take in order to achieve its long-term strategic objectives; the likelihood and the impact of principal risks materialising, and the management and mitigation of principal risks to reduce the likelihood of their incidence or their impact; and the risk aspects of proposed changes to strategy and strategic transactions including acquisitions or disposals.

The Audit Committee continues to be primarily responsible for monitoring the Company's financial risks which include access to capital and the financing of its reference projects.

Remuneration Committee: The members of the Remuneration Committee are Tom Quigley (Chair), Philip Holland (Company Chairman) and Darran Messem (Senior Independent Director). Meetings of the committee take place not less than three times a year.

Due regard is paid to the Investment Association Principles of Remuneration. At the 2023 AGM, a resolution will be proposed seeking shareholder approval of the Directors' Remuneration Report set out on pages 44 to 49.

The committee reviews, inter alia, the performance of executive directors and senior managers setting the scale and structure of their remuneration and the basis of their service agreements, having due regard to the interests of shareholders. The committee also determines the allocation of share options to executive directors and senior managers. No executive director has a service agreement exceeding one year.

The remuneration of the non-executive directors is a matter for the Chairman and the Company's executive directors. Under its terms of reference, which can be found on the Company's website, no director is permitted to participate in decisions concerning his or her own remuneration.

Nomination and Governance Committee: The members of the Nomination and Governance Committee are Philip Holland (Chair and Company Chairman), Darran Messem (Senior Independent Director) and Henrik Wareborn (Chief Executive Officer). Among its duties it reviews the composition of the Board and its succession planning, the Board evaluation process and the findings from recent evaluations, director performance and recommendations for re-elections at the Company's AGM, and considerations of director independence under the corporate governance code. The terms of reference can be found on the Company's website.

Further information is set out in the Nomination and Governance Committee report, which can be found on page 43.

BUILD TRUST

10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

The Board considers effective communication with shareholders to be very important and encourages regular dialogue with investors. Directors regularly attend meetings with shareholders and analysts throughout the year, and the Board responds promptly to questions received. Shareholders will be given at least 21 days' notice of the Company's AGM, at which they have the opportunity to raise questions of the Board on the Company's developments and performance.

Details of arrangements for the 2023 AGM are set out in the Company's Notice of 2023 AGM which is being published at the same time as this Annual Report and Accounts and are available on the Company's website. Further information is shown under QCA Principle 2.

Copies of the Annual Report and Accounts are issued to all shareholders and are available on the Company's website www.velocys.com, which provides information to shareholders and other interested parties.

The website contains full details of the Company's business activities, press releases and links to the London Stock Exchange website for share price information, share trading activities and graphs, as well as Regulatory News Service ("RNS") announcements.

The Company Secretary also deals with shareholder correspondence and may be contacted at investors@velocys.com.

The Corporate governance report, as set out on pages 32 to 39 has been approved by the board and signed on its behalf by

Philip Holland
Chairman
24 May 2023

Audit Committee report

Dear Shareholder,

I am pleased to present the Audit Committee report for the year ended 31 December 2022.

The committee has continued to assist the Board in fulfilling its responsibilities by monitoring the integrity of the Company's financial reporting and risk management systems and challenging management across a number of areas, including key accounting judgements and control matters.

COMMITTEE MEMBERSHIP AND MEETINGS

The Committee has the competence relevant to the sector in which Velocys operates and has at least one member with recent and relevant financial experience (see Board member profiles on pages 35 and 36). All committee members are independent. The members of the Audit Committee are Ann Markey (Chair), Darran Messem (Senior Independent Director) and Tom Quigley (Non-Executive Director).

Meetings are held not less than four times a year and are based on the work programme set out in the Audit Committee Guide published by the QCA. Meetings are attended by committee members, the Company Chairman, Chief Executive Officer and Chief Financial Officer. The external Auditors are invited as appropriate. The Committee normally meets with the external auditors at least once a year without the executive directors being present. All committee members attended each of the four meetings held during 2022.

ROLES AND RESPONSIBILITIES

Under its terms of reference, which can be found on the Company's website, the Audit Committee reviews, inter alia, the Company's audit planning; risk management systems in respect of financial risks including fraud; effectiveness of internal financial controls; accounting policies and financial reporting; provides a forum through which the external Auditors report; and reviews and monitors their independence and the provision of additional services.

FINANCIAL INFORMATION

The Company prepares detailed budget and working capital projections, which are approved annually by the Board and updated regularly throughout the year. Management accounts with explanations for any significant variances to budget and a detailed 24-month cash flow forecast are prepared on a monthly basis and reviewed by committee members throughout the year. The Company also maintains a long-range financial planning model which is updated periodically to support strategic decisions.

FINANCIAL STATEMENTS

The Audit Committee has considered the integrity of the Company's 2022 financial statements and reviewed the appropriateness of its critical accounting policies and the judgements made in applying them. The year-end financial statements were reviewed and discussed with PricewaterhouseCoopers LLP. In addition, the interim financial statements were reviewed by the Committee and discussed with the external auditors as part of their review. In both cases, the Committee reported to the Board that, in its view, the statements were fair, balanced and understandable.

SIGNIFICANT REPORTING CONSIDERATIONS

The significant reporting matters and accounting judgements and estimates considered by the Committee during the year included:

- Going concern assessment – see page 19 of the Financial review, page 54 of the Directors' report and note 2 (consolidated financial statements)
- Recoverability of asset carrying values – see note 19 (consolidated financial statements) and notes 10 and 13 (parent company financial statements)
- Financing arrangement with Blackmead Infrastructure Limited – see note 25 (consolidated financial statements)

In each case, the Committee reviewed the assumptions and estimates applied by management in preparing the financial statements, and concluded that these were appropriate.

EXTERNAL AUDITORS

The Audit Committee reviews and sets the terms, areas of responsibility and scope of the audit as set out in the external auditors' engagement letter, including:

- the overall work plan for the forthcoming year, together with the associated fee proposal and cost effectiveness of the audit
- the external auditors' independence
- any major issues which arise during the course of the audit and their resolution
- key accounting and audit judgements
- the level of errors identified during the audit
- the recommendations made to management by the auditors and management's response
- the auditors' overall performance

The Committee has reviewed PricewaterhouseCoopers LLP's audit process, the findings from the audit of the 2022 financial year, and the effectiveness of the external audit process. The Committee reviewed the quality and cost effectiveness of the external audit, and the independence and objectivity of the external Auditors.

PricewaterhouseCoopers LLP have provided audit services to the Group since 2008. The Committee is satisfied with PwC's performance and that they have observed the requirements on audit partner rotation, noting that a new partner will be appointed for next years audit.

The Committee obtained confirmation from PricewaterhouseCoopers LLP that their independence and ethics policies complied with FRC requirements, and that they remain independent and maintain internal safeguards to ensure their objectivity.

No contractual obligations exist that restrict the Company's choice of external auditors and the Committee is satisfied that the external Auditors remain independent. This matter is kept under continuous review by the Committee.

The Board, on recommendation by the Committee, will seek shareholder approval for the re-appointment of PwC as independent auditors for 2023.

NON-AUDIT SERVICES

The Committee has established policies determining the non-audit services that the external Auditors are permitted to provide and the procedures required for approval of any such engagement, and on the engagement of any former employees of the external Auditors.

Fees paid to PricewaterhouseCoopers LLP for their audit work can be found in note 9 in the consolidated financial statements. Other than the review of the Company's interim financial results for the period ending 30 June 2022 (and 2021), no non-audit services were provided to the Company in the year ended 31 December 2022 or during the previous year.

INTERNAL AUDIT

There is currently no formal internal audit function in place which the Audit Committee has concluded is appropriate given the size and complexity of the business and the mitigating controls in place. The Committee will continue to keep under review the need for the Company to introduce such a function.

Approved on behalf of the Audit Committee by:

Ann Markey
Non-Executive Director and Chair of the Audit Committee
24 May 2023

Risk and Sustainability Committee report

Dear Shareholder,

On behalf of the Board, I am pleased to present the Risk and Sustainability Committee report for the year ended 31 December 2022.

COMMITTEE MEMBERSHIP AND MEETINGS

The members of the Risk and Sustainability Committee are Darran Messem (Committee Chair and Senior Independent Director), Philip Holland (Company Chair), Ann Markey (Non-Executive Director) and Tom Quigley (Non-Executive Director).

Meetings are held not less than four times a year end are attended by committee members, the Chief Executive Officer and the Chief Financial Officer. All committee members attended each of the four meetings held during 2022, with the exception of Tom Quigley who was absent from one meeting.

ROLES AND RESPONSIBILITIES

The Risk and Sustainability Committee is responsible for reviewing the Company's principal risk management policies and provides oversight of the detailed corporate risks register. The Audit Committee is responsible for monitoring financial risks and internal financial controls. The Committee is also responsible for overseeing the development and implementation of the Company's strategy and policies on sustainability.

RISK MANAGEMENT

Under its terms of reference, which may be found on the Company's website, the Risk and Sustainability Committee advises the Board inter alia on the Company's overall risk appetite, tolerance and strategy, and on the principal and emerging risks the Company is willing to take in order to achieve its long-term strategic objectives; the likelihood and the impact of principal risks materialising, and the management and mitigation of principal risks to reduce the likelihood of their incidence or their impact; and the risk aspects of proposed changes to strategy and strategic transactions including acquisitions or disposals.

Risks, which change from time to time in line with the Company's strategy and operational objectives, are reviewed across the following categories:

- Macroeconomic
- Policy and regulatory framework
- Strategic
- Financial
- Technological
- Operational
- Environmental, social and governance
- Legal and compliance

Principal risks may arise across all categories and represent those risks assessed to have potentially the most material impact on the Company's performance, financial results and delivery of its strategy. Further information on risk management and the Company's principal risks can be found on pages 26 to 29.

SUSTAINABILITY

The Committee plays a key role in ensuring that the Company places sustainability considerations at the centre of its internal governance procedures including in strategic decision making and overall risk management. The Committee receives regular updates on the development of the Company's sustainability policies, which remain flexible to support the significant increase in both the scale of the organisation and a broader operational environment expected to develop during the next twelve to eighteen months.

Further information on the Company's approach to sustainability and the tangible contribution the Company's technology solution is designed to make in supporting the decarbonisation agenda within the airline industry is discussed on page 4 and in the Environmental, social and governance report on pages 22 to 23.

Approved on behalf of the Risk and Sustainability Committee by:

Darran Messem
Senior Independent Director and Chair of the Risk and Sustainability Committee
24 May 2023

Nomination and Governance Committee report

Dear Shareholder,

On behalf of the Board, I am pleased to present the Nomination and Governance Committee report for the year ended 31 December 2022.

COMMITTEE MEMBERSHIP AND MEETINGS

The members of the Nomination and Governance Committee are Philip Holland (Company Chair and Chair of the Nomination and Governance Committee), Darran Messem (Senior Independent Director) and Henrik Wareborn (Chief Executive Officer).

Meetings are held not less than twice a year and are attended by committee members. The Chief Financial Officer may also be invited as appropriate. All committee members attended the four meetings held during 2022.

ROLES AND RESPONSIBILITIES

Under its terms of reference, which can be found on the Company's website, the Nomination and Governance Committee inter alia:

- reviews the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and makes recommendations to the Board with regard to any changes;
- reviews plans for the orderly succession to Board and senior management positions, and oversees the development of a diverse pipeline for succession, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in the future;
- keeps under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace;
- reviews the results of the Board performance evaluation process;
- considers the re-appointment of non-executive directors at the conclusion of their specified term of office;
- approves the re-election by shareholders of directors under the annual re-election provisions;
- reviews annually the time required from non-executive directors; and
- considers director independence under the corporate governance code.

SIGNIFICANT MATTERS CONSIDERED DURING THE YEAR

As announced on 10 February 2022, Andrew Morris advised the Board of his intention to leave Velocys in order to pursue other career opportunities and therefore did not stand for re-election at the Company's AGM on 21 June 2022.

Following a careful selection process, including engaging with a specialist executive recruitment agency, the Committee confirmed the appointment of Philip Sanderson as an Executive Director of the Company and Chief Financial Officer effective 22 June 2022. Further details of Philip's qualifications and experience can be viewed on page 35 of the Corporate governance report.

Approved on behalf of the Nomination and Governance Committee by:

Philip Holland
Chair of the Board of Directors and Chair of the Nomination and Governance Committee
24 May 2023

Directors’ remuneration report

Dear Shareholder,

On behalf of the Board, I am pleased to present Velocys’ Directors’ remuneration report for the year ended 31 December 2022.

INTRODUCTION

The Remuneration Committee is resolute in maintaining high standards of corporate governance and has taken steps to comply with the principles of best practice in so far as they can be applied practically given the size of the Company. The Company is traded on the AIM market and is therefore not required to comply with the following regulations: disclosure requirements of the Directors’ Remuneration Report Regulations 2013; the FCA Listing Rules; Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. Consequently, certain disclosures contained in these regulations are not included below. The content of this report is unaudited unless stated otherwise.

COMMITTEE MEMBERSHIP AND MEETINGS

The members of the Remuneration Committee are Tom Quigley (Committee Chair), Philip Holland (Company Chair) and Darran Messem (Non-Executive Director and Senior Independent Director).

Meetings are held not less than four times a year end are attended by committee members, and if appropriate, by the Chief Executive Officer and the Chief Financial Officer. All committee members attended each of the six meetings held during 2022.

ROLES AND RESPONSIBILITIES

The Committee’s constitution and operation is compliant with the provisions of the QCA Code, published by the Quoted Companies Alliance, which sets out a minimum best practice standard for small and mid-size quoted companies, particularly AIM companies.

In determining the remuneration policy for executive directors, the Committee takes into consideration both the QCA Code and the Principles of Remuneration published by The Investment Association.

GENDER AND DIVERSITY INCLUSION

The Committee recognises the importance of ensuring that neither gender nor diversity considerations create a pay gap or other differentiation in workforce remuneration considerations. However, as a Company of less than 40 employees performing technical roles within their respective areas of expertise, comparability is currently limited.

	Male Number	%	Female Number	%
Directors of the Company[1]	5	83%	1	17%
Employees in other senior executive positions[2]	7	88%	1	12%
Other employees of the Company	16	55%	13	45%
Total	28	65%	15	35%

Notes

(1) Members of the Velocys plc Board, including the Chief Executive Officer and the Chief Financial Officer.

(2) Senior Vice Presidents and Vice Presidents employed by the parent company and its wholly owned subsidiaries, some of which are also directors of the subsidiaries.

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

The remuneration policy has been designed to ensure that executive directors receive incentives and rewards appropriate to their performance, responsibility and experience. In making its assessment, the Remuneration Committee seeks to align the policy with the interests of the shareholders and takes advice from specialist advisors when necessary.

Key features of the policy are:

- Setting salaries to be competitive relative to the experience of the individual and the nature, complexity and responsibilities of their work in order to attract and retain management of the required quality
- Linking individual remuneration packages to the Company’s performance through bonus schemes and long-term share-based plans
- Providing employment and post-retirement benefits in accordance with standard policies of the Company

The following chart illustrates the proportion of fixed and variable elements in the remuneration package.

REMUNERATION OF EXECUTIVE DIRECTORS

Executive directors' remuneration is considered annually and external advisors are engaged as necessary. No external advisors were engaged during the year ended 31 December 2022. Current remuneration is based on the following principles:

BASE SALARY

The base salary is reviewed annually at the beginning of each year. The review process undertaken by the Remuneration Committee considers the ongoing development of the Company, the contribution of the individual, the need to retain and motivate employees, and benchmark remuneration information from the external market and comparable organisations.

ANNUAL PERFORMANCE INCENTIVE

The executive directors are eligible, at the discretion of the Remuneration Committee, for an annual bonus. The target bonus award for each individual is based on a percentage of base salary, which, for the year commencing 1 January 2022, was 75%. The Remuneration Committee sets performance targets for bonus awards at the beginning of each year.

Awards are determined by both the performance of the individual and the Company as a whole at the end of each year. The performance targets for the Company comprise measures of financial, technical and business development goals.

Where performance is judged against measurable targets, the Remuneration Committee retains discretion to adjust the outturn to ensure it is fair, reasonable and related to the Company's performance and shareholders' experience. Performance for the previous calendar year is normally assessed in the first quarter. The performance review process for 2022 was completed in Q1 2023, however the payment of the bonus awards to executive directors and other employees has been deferred until after the fundraise the Company has planned in Q2 2023.

LONG-TERM INCENTIVE PLAN ("LTIP")

The Committee believes that an LTIP should provide executive directors and other senior managers the appropriate incentivisation, focus, retention and reward for achievement that is aligned with shareholders' interests.

Options have been issued to executive directors and other senior managers under the 2019-2021 LTIP since December 2019. The awards for 2020 were made in February 2021 and the awards for 2021 were made in January 2022.

As part of the process of developing the LTIP ("the Plan"), the Committee undertook market research and obtained advice from external remuneration consultants, who confirmed that they believed the remuneration packages and the Plan were fair and reasonable and in line with market practice. The Committee then consulted with major shareholders to seek their views before the Plan was formally approved by the Board and adopted.

Options were granted subject to the rules of the Velocys 2012 Share Option Scheme ("2012 Scheme"), as amended from time to time, which were updated in 2021. The 2012 Scheme rules have been reviewed by the Committee as well as with external advisors. Subject to some minor adjustments, in particular to accommodate retirees leaving and other amendments of leaver provisions in the rules allowing some level of Board discretion, the rules of the Velocys 2021 Share Option Scheme ("2021 Scheme") are substantially similar to those of the 2012 Scheme (as amended).

The Remuneration Committee recommended to the Board to put forward the 2021 Scheme for shareholders' approval at the Company's 2021 AGM. The resolution was passed and the rules were therefore renewed for another ten-year period.

Directors' remuneration report

Options granted to executive directors

Annual 2022 awards

The executive directors were eligible for annual 2022 awards. However, due to the fundraising process the Company has been in a closed period and therefore the granting of the 2022 annual awards for executive directors and senior managers has been delayed until a suitable period of time post the fundraise has elapsed.

Executive commencement awards

Upon his appointment in June 2022, Philip Sanderson received executive commencement awards, the details of which are set out in the table on page 48.

Annual 2021 awards

The executive directors were eligible for annual 2021 awards, which were granted in January 2022. These awards comprised Options with a value equivalent to 75% of base salary and have a strike price of 8.00 pence. Vesting requirements were based 50/50 as to the elapsing of time and meeting a performance target (market capitalisation growth); this was considered appropriate under the current circumstances of the Company. The number of Options awarded to each executive director and the vesting conditions are set out in the table on page 48.

Options granted to other employees

Annual awards were made by the Committee under the 2012 Scheme (and currently the 2021 Scheme) to other employees, with the number of awards varying according to the employee's grade level. Awards were made at the same time as to the executive directors in February 2021 and January 2022 at the same strike price and on the same terms. Further details are provided in note 15 of the consolidated financial statements.

Headroom calculations

The total of all awards outstanding as at the date of signing this reportrepresents a potential maximum dilution of current shareholders' interests of 4.8% taking into account historic awards outstanding. No options have been awarded during 2023.

The Company continues to work well within its shareholder agreed headroom cap on awards of equity. Following the passing of an Ordinary Resolution at the 2022 AGM, the maximum dilution limit was reduced from 25% to 10% of the issued share capital from time to time. The Company considers this limit to be more in line with the norms under currently accepted corporate governance best practice and in line with the Company's current circumstances.

Pensions and other benefits

The Company contributes to the executive directors' defined contribution pension plans at 10% of base salary. Where this is not possible, due to UK annual or lifetime pension allowances being exceeded, the Company makes an additional salary payment in lieu of pension contributions.

For other employees the Company contributes to individuals' defined contribution pension plans in line with the UK and US schemes in place. For UK-based employees, the Company contributions are 7% of base salary. For US-based employees, the Company contributions are 3% of pensionable pay with an additional contribution of between 1% to 4% to match the employee's own contribution up to the maximum allowable under US pensions law. Other benefits provided are life insurance, private medical insurance and relocation allowances, where applicable, in line with the Company's standard policies.

Service contracts

Each of the executive directors has a service contract with a notice period of six months.

REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

The remuneration of non-executive directors is determined by the executive directors in consultation with the Chair of the Board, based on a benchmark review of current practices in similar companies. The non-executive directors are paid a fixed fee and do not receive any pension payments, discretionary bonus or other benefits. The fee for the Chair of the Board is set by the executive directors in consultation with the Remuneration Committee. No director can be involved in the determination of his or her own remuneration.

Non-executive directors are appointed for an initial three-year term and are typically expected to serve for two three-year terms. Either the non-executive director or the Company can terminate the contract with three months' written notice. The Chairman's appointment is on the same terms and the notice period is also three months.

The Company may invite a non-executive director to serve for further periods after the expiry of two three-year terms subject to a particularly rigorous review of performance and considering the need for progressive refreshing of the Board.

Under the Company's Articles of Association, all directors are required to stand for re-election by shareholders on appointment and thereafter at least once every three years. However, in line with best practice, the Company has decided to put all non-executive directors up for re-election at the 2023 AGM.

Fees paid to non-executive directors

The aggregate amount of non-executive directors' fees, as set out in the Company's Annual Report and Accounts for the years ended 31 December 2022 and 2021 is as follows. This is less than the aggregate limit of £250,000 specified in Article 92 of the Company's Articles adopted on 22 June 2011.

	2022 £	2021 £
Aggregate fees paid to non-executive directors	222,000	202,947

DIRECTORS' REMUNERATION (AUDITED)

Aggregate emoluments excluding pension contributions made by the Company for current and former directors in 2022 totalled £1,387,687 (2021: £679,930), and Company pension contributions were £23,190 (2021: £64,625).

The directors who held office in the year ending 31 December 2022 received the following remuneration in relation to the year ended 31 December 2022.

The discretionary bonuses paid to the executive directors in 2022 were in respect of their performance in 2021. No bonuses were paid in 2021 to the executive directors or to any other employees in respect of 2020 performance due to the economic uncertainties caused by the COVID-19 pandemic. In the table presented below, bonus is the only element of variable compensation.

						2022					2021
Name of director	**Salary & fees £**	**Severance £**	**Other benefits[1] £**	**Bonus £**	**Pension £**	**Total £**	**Salary & fees £**	**Other benefits £**	**Bonus £**	**Pension £**	**Total £**
Executive											
Henrik Wareborn[2]	316,265	–	17,265	187,500	11,490	532,520	231,000	11,743	–	44,000	286,743
Philip Sanderson[3]	133,704	–	1,774	–	–	135,478	–	–	–	–	–
Andrew Morris[4]	117,000	218,250	5,179	168,750	11,700	520,879	225,000	9,240	–	20,625	254,865
Non-executive											
Philip Holland	72,000	–	–	–	–	72,000	72,000	–	–	–	72,000
Sandy Shaw[5]	–	–	–	–	–	–	37,500	–	–	–	37,500
Darran Messem	50,000	–	–	–	–	50,000	50,000	–	–	–	50,000
Ann Markey[6]	50,000	–	–	–	–	50,000	21,792	–	–	–	21,792
Tom Quigley[7]	50,000	–	–	–	–	50,000	21,655	–	–	–	21,655
Aggregate emoluments and pension contributions	788,969	218,250	24,218	356,250	23,190	1,410,877	658,947	20,983	–	64,625	744,555

Notes

[1] Other benefits are in respect of medical cover for executive directors and their dependants
[2] Henrik Wareborn had a base salary of £300,000 in 2022. In addition, he received £16,265 in lieu of employer pension contributions (2021: £nil)
[3] Philip Sanderson was appointed to the Board on 22 June 2022
[4] Andrew Morris stood down from the Board on 21 June 2022
[5] Sandy Shaw stood down from the Board on 30 September 2021
[6] Ann Markey was appointed to the Board on 26 July 2021
[7] Tom Quigley was appointed to the Board on 26 July 2021

Directors' remuneration report

DIRECTORS' SHARE OPTIONS (AUDITED)

Directors' shareholdings are disclosed on page 53 of the Directors' report.

Details of options held at 31 December 2022 by the directors who held office in the year ending 31 December 2022 were as follows.

Name of director	At 1 January 2022	Granted	Lapsed	At 31 December 2022	Exercise price (£)	Earliest date of exercise	Date of expiry	Exercisable at 31 December 2022
Henrik Wareborn								
Commencement	2,000,000	–	–	2,000,000	10.00p	13/12/19	12/12/29	2,000,000
Performance	2,000,000	–	(2,000,000)	–	15.00p	31/12/22	12/12/29	–
LTIP 2019 - performance	3,125,000	–	–	3,125,000	3.00p	13/12/22	12/12/29	3,125,000
LTIP 2019 – time	3,125,000	–	–	3,125,000	3.00p	13/12/22	12/12/29	3,125,000
LTIP 2020 - performance	1,632,252	–	–	1,632,252	7.86p	09/02/24	08/02/31	–
LTIP 2020 – time	1,632,252	–	–	1,632,252	7.86p	09/02/24	08/02/31	–
LTIP 2021 - performance	–	1,171,875	–	1,171,875	8.00p	13/01/25	12/01/32	–
LTIP 2021 – time	–	1,171,875	–	1,171,875	8.00p	13/01/25	12/01/32	–
Subtotal	13,514,504	2,343,750	(2,000,000)	13,858,254				8,250,000
Philip Sanderson								
Commencement	–	5,000,000	–	5,000,000	4.50p	22/06/25	22/06/32	–
Subtotal	–	5,000,000	–	5,000,000				–
Andrew Morris[1]								
Commencement	2,000,000	–	–	2,000,000	10.00p	13/12/19	12/12/29	2,000,000
Performance	2,000,000	–	(2,000,000)	–	15.00p	31/12/22	12/12/29	–
LTIP 2019 - performance	2,812,500	–	(2,812,500)	–	3.00p	13/12/22	12/12/29	–
LTIP 2019 – time	2,812,500	–	(2,812,500)	–	3.00p	13/12/22	12/12/29	–
LTIP 2020 - performance	1,469,026	–	(1,469,026)	–	7.86p	09/02/24	08/02/31	–
LTIP 2020 - time	1,469,026	–	(1,469,026)	–	7.86p	09/02/24	08/02/31	–
LTIP 2021 - performance	–	1,054,688	–	1,054,688	8.00p	13/01/25	12/01/32	
LTIP 2021 - time	–	1,054,688	–	1,054,688	8.00p	13/01/25	12/01/32	
Subtotal	12,563,052	2,109,376	(10,563,052)	4,109,376	–	–	–	2,000,000
Total	26,077,556	9,453,126	(12,563,052)	22,967,630	–	–	–	10,250,000

Notes

[1] Andrew Morris did not stand for re-election at the 2022 AGM and therefore stepped down from the Board on 21 June 2022. The Remuneration Committee determined that 2,000,000 fully vested options would remain exercisable until the original expiry date of 12/12/29. In addition, 2,109,376 options granted in 2022 would continue to vest under the original vesting criteria, and if the options vest, they will also remain exercisable until the original expiry date of 12/01/32.

No options were exercised by executive directors during 2022 or 2021. Of the options that were exercisable at 31 December 2022, 6,250,000 (2021: none) had an intrinsic value at that date.

The total charge for share-based payments during the year in respect of executive directors was £219,000 (2021: £124,000).

Options granted in 2022

In January 2022, the Company granted options totalling 11,378,282 to executive directors and senior management in respect of 2021 performance and options totalling 1,500,000 to a new employee who joined the Company during 2021. The executive directors, Henrik Wareborn and Andrew Morris received a total of 2,343,750 and 2,109,376 options respectively, allocated equally between time-based and performance-based options.

The exercise price was set at the time of grant at 8.00 pence being the highest of the share price at the December 2021 fundraise, the share price on the date of grant and the weighted average share price for the month prior to grant. The total number of options granted represented a dilution of shareholders' interests at the time of grant of 0.92%.

10,000,000 options have also been granted during 2022 to a number of employees who joined the Company during 2022. 5,000,000 options were granted to the Chief Financial Officer upon his appointment in June 2022, and the remainder to other UK and US employees. Further details can be found in note 15 of the consolidated financial statements.

Options granted in 2021

In February 2021, the Company granted options totalling 14,088,205 to executive directors and senior management in respect of 2020 performance and options totalling 500,000 to new employees who joined the Company during 2020.

The executive directors, Henrik Wareborn and Andrew Morris received a total of 3,264,503 and 2,938,052 options respectively, allocated equally between time-based and performance-based options. The exercise price was set at the time of grant at 7.86 pence being the highest of the share price at the last fundraise, the share price on the date of grant and the weighted average share price for the month prior to grant.

The total number of options granted represented a dilution of shareholders' interests at the time of 1.37%.

SHARE PRICE

The market price of the parent company's shares at 31 December 2022 was 4.70p (31 December 2021: 7.40p) and the range during the year was 4.22p to 7.70p (2021: 4.10p to 13.50p). Details of options and the cost of share-based payments are given in note 15 of the consolidated financial statements.

Approved by the Board and signed on its behalf by:

T.K Quigley

Tom Quigley
Chair of the Remuneration Committee
24 May 2023

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2022

COMPANY
Velocys plc is the parent of the Company. It is a public limited company listed on AIM and incorporated and registered in the United Kingdom. The registered office address is given on the information page inside the back cover of this document.

FUTURE DEVELOPMENTS
The Board aims to pursue its corporate strategies as detailed in the Strategic Report on pages 10 to 29.

DIVIDENDS
The Directors do not recommend the payment of a dividend for the year ended 31 December 2022 (2021: nil).

RESEARCH AND DEVELOPMENT
The Company's research and development activities relate primarily to the development of technology to support sustainable fuel projects in the UK and the US. Research continues on catalyst optimisation as well as development work on parts of the reactor design that can affect the scale of the reactors in the field. Details of research and development costs are shown in note 7 of the consolidated financial statements.

DONATIONS
The Company has made no political donations during 2022 (2021: nil).

POST FINANCIAL POSITION EVENTS

Master relationship agreement executed with Bechtel Limited
In January 2023 the Company signed a master relationship agreement ("MRA") with Bechtel Limited ("Bechtel"), a leading worldwide provider of engineering, construction and project management services setting out a route map for the parties to collaborate with each other.

As the Company's SAF project delivery partner, the aim is to develop a centre of excellence model and provide front end project engineering and other technical services to Velocys' SAF project portfolio. Through the MRA, Velocys and Bechtel will collaborate in the development of an investable EPC execution model for the Company's reference projects.

Under a separate continuing technical services agreement, Bechtel is providing front end project engineering and certain other technical services to support the development of Velocys' SAF project portfolio. In particular, from April 2023 Bechtel has started working on delivery of the Altalto Immingham project FEED phase.

Appointment of financial adviser 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 launched in May 2023
On 19 May 2023, the Company announced the results of an accelerated book build process for a placing and retail offer of the Company's ordinary shares for a total of £6.0 million (before expenses), with the process expected to complete on 9 June 2023 following the approval required at a General Meeting of the Company's shareholders on 8 June 2023. An 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.

In addition, the Company has agreed to the issuance of convertible loan notes of $15 million (approximately £12 million) to Carbon Direct Capital, who has provided a commitment to proceed provided that the Company is able to raise a minimum of £32 million (including the equity raise announced on 18 May 2023 and the existing conditional convertible loan note commitment for £12 million).

The convertible loan notes are structured to incentivise a US dual listing of Velocys. The convertible loan notes have no coupon subject to achieving a US listing prior to the 22-month anniversary post completion. The proposed convertible loan notes have zero coupon for the first 22 month from issue. However, in the event that a US listing has not occurred by the 22 month anniversary of the issue of the convertible loan notes, an aggregate of 12.5 per cent. interest will accrue from the issue date.

DIRECTORS

The directors of Velocys plc who were in office during the year and up to the date of signing the financial statements, unless otherwise stated, were as follows.

- Philip Holland (Non-Executive Chairman)
- Henrik Wareborn (Chief Executive Officer)
- Philip Sanderson (Chief Financial Officer) – appointed as a director 22 June 2022
- Andrew Morris (Chief Financial Officer) – resigned as a director 21 June 2022
- Darran Messem (Non-Executive Director)
- Ann Markey (Non-Executive Director)
- Tom Quigley (Non-Executive Director)

While the Company's Articles of Association require that all directors are subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of not more than three years, the directors have decided that, in line with best corporate governance practice, at the 2023 Annual General Meeting all of the directors will again retire and offer themselves for re-election.

THE S172(1) STATEMENT OF DIRECTORS' DUTIES

The directors of the Company must act within a general set of duties, which have been set out in Section 172 of the UK Companies Act 2006.

The reporting requirements were effective from December 2019. They arise from the 2018 UK Corporate Governance Code and the Companies (Miscellaneous Reporting) Regulations 2018. Both the Code and the Regulations introduced new requirements for boards to explain how they have taken account of stakeholder views and met the requirements of S172 of the Companies Act.

Specifically, the Code states that:
"The board should understand the views of the company's other key stakeholders and describe in the annual report how their interests and the matters set out in Section 172 of the Companies Act 2006 have been considered in board discussions and decision-making."

The Regulations formalise this by requiring companies to include a s172(1) statement in their annual reports, which "describes how the directors have had regard to the matters set out in Section 172(1) (a) to (f) when performing their duty under Section 172."

The matters set out in Section 172(1) (a) to (f) are:

(a) the likely consequences of any decision in the long term.
(b) the interests of the company's employees.
(c) the need to foster the company's business relationships with suppliers, customers and others.
(d) the impact of the company's operations on the community and the environment.
(e) the desirability of the company maintaining a reputation for high standards of business conduct.
(f) the need to act fairly between members of the company.

The Company's governance and decision-making processes, which the Board considers are appropriate to the size and complexity of the business, are set out in the Corporate governance report on pages 32 to 39. The periodic board and committee meetings have a rolling agenda and are structured to ensure the requirements of Section 172 are fully considered when key strategic decisions are made.

Below we describe how the Directors fulfil their duties by considering the potential impact of decisions made on our key stakeholders:

RISK MANAGEMENT AND LONG-TERM CONSEQUENCES

Decisions brought to the Board are considered in the wider context of their consequences for the business both in the short term but also in the long term.

We are making decisions about reference projects; feasibility studies with potential partners and customers; manufacturing capacity; research into the development of our reactors and catalyst; and the health and safety of both our employees and customers, along with how to resource this work with finance and human resources.

The consequences of these decisions and the risks taken have a direct impact on the activities of the Company and the relationships with all aspects of our stakeholders and the community. For further details of how we manage the risks in our business please see pages 26 to 29.

Directors' report

ENGAGEMENT WITH OUR EMPLOYEES

The executive directors hold regular 'town hall' meetings with attendees joining in conference from across our offices in the UK and US, during which we discuss the progress of the Company and also encourage Q&A sessions, health and safety briefings, and highlight new or changes to Company policies.

As we returned to a more normal working environment during 2022, the executive directors and other line managers were able to travel more regularly to engage directly with their teams and employees including during the performance evaluation process. This helps with decisions on promotion, career advancement, training, fixed and variable compensation. It also ensures that there is an opportunity for us to hear back from our employees as to how we are doing for them as a Company, helping us to improve our employment practices and so the well-being and overall performance of our team.

The Covid Response Team, which was so valuable in maintaining employee engagement and well-being during the past few years, has now been merged into the Health and Safety Committee, which has employee representation from across all of the Company's sites and activities.

BUSINESS RELATIONSHIPS

The Company recognises the importance of mutually beneficial, long-term business relationships. Each major relationship with a customer, supplier, trade body, government department or other organisation is assigned a senior manager who is responsible for ensuring overall success and co-ordinating the interactions with other team members.

Having seen the benefits of remote working, the Company has taken to regularly using internet platforms for our meetings where travel is not necessary to achieve the main objectives. A successful example of this has been our use of the Investor Meet Company platform for hosting live Company results presentations and Q&A sessions.

Other relationships, including those with our engineering partners, our customers and our business development activities have led, for example, to the collaboration with Bechtel and the appointment of a leading global investment bank to support the reference project financing.

We are also focused on creating new business relationships with potential customers in the US, Europe and the Middle East, with the aim of developing a sustainable pipeline of opportunities throughout the world that will benefit from the use of our technology and the integrated engineering.

COMMUNITY AND THE ENVIRONMENT

Our raison d'être is to provide a solution to parts of the transport sector that are hard to decarbonise, especially the airlines. We are developing an engineered, integrated technology package which will allow plants to be built with a significant beneficial impact on the carbon emissions of this sector.

Velocys is committed to acting and developing sustainably and much of how we approach the Company's sustainability is driven by the UN's Sustainable Development Goals.

We were excited to announce the revised engineering design for the Bayou Fuels reference project planned in Natchez, Mississippi that lowered the prospective carbon intensity score of the fuel to be produced, achieved through incorporating a biomass boiler and carbon capture and sequestration.

In Ohio, where our new reactor core manufacturing facility was constructed during 2022, we have signed an Enterprise Zone agreement with Union County, Ohio and also a grant agreement with JobsOhio for $200,000, the terms of which include the creation of new skilled jobs and contributions to community projects in the local area.

STANDARDS OF BUSINESS CONDUCT

The Company complies with the QCA Code on Corporate Governance, which in part regulates how we conduct our business with all stakeholders. We also have a policy on Anti-Corruption and Bribery and an Anti-Modern Slavery Policy, which sets out the rules by which the officers of the Company have to act in relationships with other organisations and the personnel employed by the Company.

OUR ENGAGEMENT WITH SHAREHOLDERS

We treat all shareholders in the Company with equal respect and are grateful to them for supporting the Board during the latest fundraise, which will enable the Company to remain focused on delivering its renewable fuels technology and pursuing exciting opportunities in this developing market.

Given that we raise funds from the public market on a regular basis, the executive directors regularly meet with the larger shareholders of the Company. There are also group meetings arranged by our brokers of smaller shareholders as well as the use of one of the specialist internet-based platforms to keep all of them up to date with the activities of the Company. We have developed regular communications to our shareholders through the media including our website and LinkedIn.

DIRECTORS' INTERESTS

The directors who held office at 31 December 2022 had the following interests in the shares of parent company undertakings (as recorded in the Register of Directors' Interests and including those of the spouse or civil partner and children under 18).

	Velocys plc ordinary shares	
	31 December 2022	31 December 2021
Philip Holland	1,328,118	1,328,118
Darran Messem	558,333	558,333
Ann Markey	125,000	125,000
Tom Quigley	125,000	125,000
Henrik Wareborn	2,318,445	2,318,445
Philip Sanderson	200,000	–

Directors' share options and service contracts are detailed in the Directors' remuneration report.

DIRECTORS' QUALIFYING THIRD-PARTY INDEMNITY PROVISION

The Company maintains directors' qualifying third-party indemnity insurance to provide cover for legal action against its directors. This has been in place throughout the year and up to the date of approval of these financial statements.

FINANCIAL INSTRUMENTS

The Company's financial instruments are detailed in note 29 of the consolidated financial statements.

FINANCIAL RISK MANAGEMENT

Financial risks and risk management are detailed in the Strategic Report on pages 26 to 29, and in note 29 of the consolidated financial statements.

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified of, or is otherwise aware of, the following holdings of 3% or more of the issued share capital of Velocys plc as at 30 April 2023.

	Number of shares held	% of issued share capital
Lansdowne Partners	255,156,632	18.3%
Hargreaves Lansdown Asset Management	164,891,273	11.8%
Interactive Investor Trading	89,923,736	6.4%
Norma Investments Ltd	82,442,443	5.9%
Ruffer LLP	63,691,906	4.6%
Ervington Investments Ltd	55,413,333	4.0%
Amati Global Investors	53,987,142	3.9%
A J Bell Securities	43,924,405	3.1%

Directors' report

GOING CONCERN AND FUTURE FUNDING

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 signing these financial statements in order for the Company to continue as a going concern.

The Company's main source of new funds is 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. In addition, the Company has agreed to the issuance of convertible loan notes of $15 million (approximately £12m) to Carbon Direct Capital, who has provided a commitment to proceed provided that the Company is able to raise a minimum of £32 million (including from the equity raise announced on 18 May 2023 and the existing conditional convertible loan note commitment for £12 million).

The Company published the results of the accelerated bookbuild process for the placing and retail offer on 19 May 2023, which is for 240,000,000 new ordinary shares at a price of 2.5 pence per share, equating to gross proceeds of £6m. The open offer has a maximum limit of £2 million (before expenses) and is open until 7 June 2023. The placing, retail offer and open offer are subject to approval at a General Meeting of the Company's shareholders on 8 June 2023. The directors believe that all resolutions required to execute the placing, retail offer and open offer will be successfully approved at the general meeting as a matter of course, with proceeds to be received shortly after.

At the date of signing these financial statements, the Company does not have firm commitments from any additional investors into the convertible loan notes and has set a deadline of 30 September 2023 for completing this part of the fundraise.

The directors reviewed the Company's business plan and cash flow forecasts on the basis that the placing, retail and open offer is approved at the general meeting and the convertible loan notes are issued by 30 September 2023. These equity 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 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 signing these financial statements.

At the time of signing these financial statements, 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 financial statements do not include any adjustments that would arise if the Company and Velocys plc were unable to continue as a going concern.

ANNUAL GENERAL MEETING

Details of arrangements for the 2023 Annual General Meeting are set out in the Company's notice of 2023 AGM which is being published at the same time as this Annual Report and are available on the Company's website.

CORPORATE GOVERNANCE

The Company's statement on corporate governance is available on pages 32 to 39.

Approved by the Board and signed on its behalf by:

Henrik Wareborn
Chief Executive Officer
24 May 2023

Statement of directors' responsibilities

In respect of the financial statements

The directors are responsible for preparing the Annual Report & Accounts and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the parent company financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The directors are responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' CONFIRMATIONS

- In the case of each director in office at the date the Directors' report is approved:
- so far as the director is aware, there is no relevant audit information of which the group's and parent company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's and parent company's auditors are aware of that information.

On behalf of the Board

Henrik Wareborn
Chief Executive Officer
24 May 2023

Financial Statements

Independent auditors' report to the members of Velocys plc

Report on the audit of the financial statements

OPINION

In our opinion, the Company's consolidated financial statements (which covers the group comprising Velocys plc and its subsidiaries) and Velocys plc's financial statements (which cover Velocys plc's parent company financial statements) (the "financial statements"):

- give a true and fair view of the state of the Company's and Velocys plc's affairs as at 31 December 2022 and of the Company's consolidated loss and the Company's and Velocys plc's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Company consolidated and Velocys plc statements of financial position as at 31 December 2022; the consolidated income statement and consolidated statement of comprehensive income, the Company consolidated and Velocys plc statements of cash flows, and the Company consolidated and Velocys plc statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN – COMPANY AND VELOCYS PLC

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the Company's and Velocys plc's ability to continue as a going concern. In order to continue as a going concern the Company and Velocys plc need to secure additional fund raising (in excess of the £6 million gross raise which is subject to shareholder approval) within the next 12 months. At the time of the approval of the financial statements no such funding is committed. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's and Velocys plc's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company and Velocys plc were unable to continue as a going concern.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Company's and Velocys plc's ability to continue to adopt the going concern basis of accounting included:

- The directors prepared financial forecasts to estimate the likely cash requirements of the Company and Velocys plc over a period of 12 months from the date of approval of the financial statements. These forecasts show that the Company and Velocys plc require additional external funding within the going concern assessment period, in addition to the £6 million gross raise which is subject to shareholder approval. Given the risks associated with raising additional funding, the directors have drawn attention to this in disclosing a material uncertainty relating to going concern as set out in note 2 to the financial statements.
- In concluding that a material uncertainty exists, we audited the Company's and Velocys plc's cash flow forecast for the period to 31 May 2024 and agreed that it is based on Board approved budgets. We also requested the directors to extend their forecast to June 2024. The forecast included certain assumptions as set out in note 2 to the financial statements.

We tested these assumptions by performing the following audit procedures:

- We tested the mathematical accuracy of the cash flow forecast and we did not identify any material exceptions in these tests.
- We examined documentation supporting the mitigating actions identified by management to extend the Company's and Velocys plc's cash position, should additional funding not be achieved. We considered management's assumptions to be reasonable.
- We held discussions with management to understand the nature of downside risks and obtained an update on the current status of the sources of funding options being sought including the plan to bring them to fruition, as set out in note 2 to the financial statements. We also considered whether there were additional risks that needed to be reflected in the forecast. We used our understanding of the Company and industry to assess the possibility of such risks arising and their potential impact. We obtained evidence of placing, retail and open offers issued by AIM on 19 May 2023. We considered management's assumptions to be reasonable, however, at the time of the approval of the financial statements, the £6 million gross committed is subject to shareholder approval on 8 June 2023. Further, additional funding in excess of this will still be required, and, therefore, there is the risk that sufficient funding may not be achieved.
- We considered the adequacy of the disclosure in note 2 to the financial statements and found it to be sufficient to inform members about the directors' conclusions on the appropriateness of the use of the going concern basis accounting in the preparation of the financial statements.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

OUR AUDIT APPROACH

Overview

Audit scope

- Overall Company materiality: £681,900 (2021: £474,500), based on 5% of loss before tax.
- Overall Velocys plc materiality: £384,000 (2021: £447,000) based on 1% of total assets.
- We identified two financially significant components which were subject to full scope audits.
- We performed a full scope audit over the significant components Velocys plc and Velocys Inc. as well as Velocys Technologies Limited for statutory reporting purposes.
- We performed specified audit procedures at two further components to address specific risk characteristics or to provide sufficient overall coverage of particular financial statement line items.
- All audit work was performed by the group engagement team.
- Components where we performed audit procedures accounted for 99% of Company's consolidated loss before tax and 98% of Velocys plc total assets.

Key audit matters

- Material uncertainty related to going concern
- Valuation of assets for the Company and investment in subsidiaries for Velocys plc (Company and Velocys plc)

Materiality

- Overall Company materiality: £681,900 (2021: £474,500) based on 5% of loss before tax.
- Overall Velocys plc materiality: £384,000 (2021: £447,000) based on 1% of total assets.
- Performance materiality: £511,400 (2021: £356,000) (Company) and £288,000 (2021: £335,000) (Velocys plc).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

The key audit matters overleaf are consistent with last year.

Independent auditors' report to the members of Velocys plc

Key audit matter	How our audit addressed the key audit matter
Valuation of assets for the Company and investment in subsidiaries for Velocys plc (Company and Velocys plc)	
The carrying value of the Company's intangible assets is £1.5m (2021: £1.1m) and net assets are £16.7m (2021: £29.7m). The carrying value of Velocys plc's investments in subsidiaries is £9.4m (2021: £9.2m). The Company's intangible assets and Velocys plc's investments in subsidiaries are subject to impairment testing at least annually or more frequently if events or changes in circumstances indicate the carrying value may not be recoverable. In assessing whether there was any indication of impairment, management considered any changes in operations and compared the carrying amount of the Company's and Velocys plc's net assets to Velocys plc's market capitalisation. For the assessment of the recoverable amount of the Company's and Velocys plc's assets, the recoverable amount was determined for the cash generating unit ('CGU') to which these assets belong. The Company and Velocys plc have one CGU. The recoverable amount of the CGU was determined based on its fair value less costs of disposal ('fair value'), using Velocys plc's market capitalisation. IAS 36 also requires that the Company assess at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. The market capitalisation of the Company at 31 December 2022 was approximately £65.7m indicating no impairment. Management also considered the trading performance in 2022, with no significant new revenue contracts, did not indicate the previous impairment loss should be reversed until further progress is achieved on the projects and greater revenue generation. Furthermore, the market capitalisation remains volatile both during the year and after the year end driven mainly by the fluctuation in share price. During the year the share price reported a low of 4.2p as at 15 July 2022 and a high of 7.7p on 5 January 2022 and at year end the share price was 4.7p. Post year-end the share price decreased to a low of 3.0p in April 2023. Whilst, the market capitalisation has fluctuated, it has remained above the net assets of the Company and Velocys plc. Our audit focused on the risk that the carrying value of the Company's assets and Velocys plc's investments in subsidiaries could be overstated and further impairments could be necessary as well as considering if there were any indicators that the previous impairment may be reversed. Please refer note 19 in Company's financial statement and Note 10 in Velocys plc's financial statement.	We assessed the level at which impairment testing was performed. Based on our knowledge of the business, including the use of assets and internal reporting, we agreed with management's judgement that, for the assessment of the recoverable amount of the Company's assets, the Company has one CGU. We evaluated management's impairment indicators and their approach to calculating the CGU's recoverable amount, based on its fair value, using Velocys plc's market capitalisation. Management's assessment considered the market capitalisation at 31 December 2022 and post year end up to the date of this report. We concluded that the application of this market approach was appropriate. We independently verified the calculation of the market capitalisation as well as the fluctuations in share price. We compared the carrying value of assets with their recoverable amount. We did not identify any material exceptions in these tests and concur with management that there are no indicators of impairment. We then assessed whether a reversal of impairment was required and concluded that although the market capitalisation has increased, given that there are no significant operational or trading advances (such as a large new revenue contract or a technology proof milestone), it is appropriate to not record a reversal of previous impairment. We also assessed the Company's and Velocys plc's disclosures regarding the significant accounting judgements. We consider that these disclosures appropriately draw attention to the significant areas of judgement that support management's conclusion.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company and Velocys plc, the accounting processes and controls, and the industry in which they operate.

The Company's accounting process is structured around the UK and US finance functions with the core reporting function based out of the UK office. As part of our overall scoping exercise, we determined the nature of work that needed to be performed to get sufficient coverage across the entire Company. For each component we determined whether we required an audit of their complete financial information (full scope) or whether specified audit procedures addressing specific risk characteristics or financial statement line items would be sufficient. We required a full scope audit for three components, of which two were individually financially significant (Velocys Inc. (US) and Velocys plc (company only - UK). We performed a full scope audit on an additional component (Velocys Technologies Limited (UK)) selected based on specific risk. We determined that specified audit procedures were required at a further two components (Altalto Immingham Limited (UK) and Velocys Projects Limited (UK)) to address specific risk characteristics or to provide sufficient overall Company coverage of financial statement line items. We performed analytical review procedures on the remaining population of components contributing insignificant underlying profit before tax individually and in aggregate.

These procedures include an analysis of year-on-year movements, at a level of disaggregation to enable a focus on higher risk balances and unusual movements. This gave us the evidence we needed for our opinion on the financial statements as a whole. Components where we performed audit procedures accounted for 99% of Company's consolidated loss before tax and 98% of Velocys plc total assets. All audit work was performed by the group engagement team.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Company's and Velocys plc's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the Company's and Velocys plc's financial statements.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - Company	Financial statements - Velocys plc
Overall materiality	£681,900 (2021: £474,500).	£384,000 (2021: £447,000).
How we determined it	5% of loss before tax	1% of total assets
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, loss before tax, is the primary measure used by the members in assessing the financial performance of the Company.	We believe that total assets are the primary measure used by the shareholders in assessing the performance and position of the entity and reflects the Velocys plc's principal activity as a holding company.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall Company materiality. The range of materiality allocated across components was between £140,500 and £542,450. Certain components were audited to a local statutory audit materiality that was also less than our overall Company materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £511,400 (2021: £356,000) for the Company financial statements and £288,000 (2021: £335,000) for the Velocys plc financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £34,096 (Company audit) (2021: £23,730) and £19,190 (Velocys plc audit) (2021: £22,350) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and Velocys plc and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Responsibilities of the directors for the financial statements
As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditors' report to the members of Velocys plc

In preparing the financial statements, the directors are responsible for assessing the Company's and the Velocys plc's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or Velocys plc or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries, omitting, advancing or delaying recognition of events and transactions that have occurred during the reporting period and management bias in accounting estimates or judgements to manipulate results. Audit procedures performed by the engagement team included:

- Held discussions with the Company's management, legal advisors, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Reviewed meeting minutes of the Board, Audit, Nomination and Governance, Remuneration and Risk and sustainability Committees.
- Identified and tested a sample of journal entries based on our risk assessment and evaluating whether there was evidence of management bias that represents a risk of material misstatement due to fraud.
- Incorporated elements of unpredictability into the audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for Velocys plc's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

COMPANIES ACT 2006 EXCEPTION REPORTING

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by Velocys plc, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- Velocys plc's financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Gareth Murfitt

Gareth Murfitt (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading.
24 May 2023

Consolidated income statement

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Revenue	6	241	8,283
Cost of sales		(87)	(4,881)
Gross profit		154	3,402
Administrative expenses	7	(16,263)	(13,331)
Other income	10	1,624	956
Operating loss		(14,485)	(8,973)
Finance income	11	1,359	34
Finance costs	12	(828)	(551)
Net finance costs		531	(517)
Loss before income tax		(13,954)	(9,490)
Income tax credit	13	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)	16	(0.95)	(0.78)

Notes

The notes on pages 68 to 94 are part of these consolidated financial statements.

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)

Notes

The notes on pages 68 to 94 are part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2022

	Note	2022 £'000	2021 £'000
Assets			
Non-current assets			
Property, plant and equipment	17	11,004	11,006
Right-of-use assets	18	399	500
Intangible assets	19	1,524	1,086
Total non-current assets		12,927	12,592
Current assets			
Inventories	21	855	767
Trade and other receivables	22	2,586	1,274
Current income tax asset		976	1,100
Cash and cash equivalents	23	13,383	25,506
Total current assets		17,800	28,647
Total assets		30,727	41,239
Liabilities			
Non-current liabilities			
Provisions	24	(13)	–
Lease liabilities	18	(51)	(189)
Other financial liabilities	25	(9,719)	–
Other liabilities	27	(165)	–
Total non-current liabilities		(9,948)	(189)
Current liabilities			
Provisions	24	(216)	–
Trade and other payables	26	(2,596)	(2,969)
Lease liabilities	18	(375)	(397)
Deferred consideration	4	–	(7,250)
Other financial liabilities	25	(376)	–
Other liabilities	27	(322)	(431)
Deferred revenue	28	(206)	(326)
Total current liabilities		(4,091)	(11,373)
Total liabilities		(14,039)	(11,562)
Net assets		16,688	29,677
Equity			
Called up share capital	30	13,977	13,936
Share premium account	30	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

Notes

The notes on pages 68 to 94 are part of these consolidated financial statements.
The financial statements on pages 63 to 94 were approved by the Board of Directors and authorised for issue on 24 May 2023 and were signed on its behalf below by:

Henrik Wareborn

Henrik Wareborn
Chief Executive Officer

Company number 05712187

Consolidated statement of changes in equity

For the year ended 31 December 2022

	Note	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	15	–	–	–	293	–	–	293
Transfer from share-based payments reserve	30	–	–	–	(14,000)	–	14,000	–
Net proceeds from share issues	30	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	15	–	–	–	499	–	–	499
Transfer from share-based payments reserve	30	–	–	–	–	–	–	–
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

Notes

The notes on pages 68 to 94 are part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'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	21	–	118
Share-based payments	15	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	28	(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	17	(7,759)	(2,730)
Purchase of intangible assets	19	(539)	(518)
Interest received		83	34
Net cash used in investing activities		(8,102)	(3,214)
Cash flows from financing activities			
Proceeds from issue of shares	30	–	26,222
Costs of issuing shares		–	(1,618)
Proceeds from issue of share options		123	48
Principal elements of lease payments	18	(611)	(485)
Interest paid	12	(828)	(116)
Proceeds from borrowings	25	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	23	25,506	13,051
Exchange movements on cash and cash equivalents		99	(297)
Cash and cash equivalents at end of year	23	13,383	25,506

Notes

The notes on pages 68 to 94 are part of these consolidated financial statements.

Notes to the consolidated financial statements

1. GENERAL INFORMATION

Velocys plc is a company incorporated and domiciled in England. It operates through a number of subsidiaries in the UK and the US, and collectively they are referred to in the financial statements as the "Company" or "Velocys", with Velocys plc as "Velocys plc" or the "parent company". The nature of the Company's operations and its principal activities are set out in the Strategic report on pages 14 to 15. The parent company financial statements are included on pages 95 to 106. The parent company's securities are traded on the Alternative Investment Market ("AIM") of The London Stock Exchange under the symbol "VLS".

2. ACCOUNTING POLICIES

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

Basis of preparation
The consolidated financial statements have been prepared in accordance with UK adopted international accounting standards and have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities at fair value, where relevant. No such adjustments to financial assets or liabilities were required in 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 referenced in note 3.

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 signing these financial statements in order for the Company to continue as a going concern.

As at the date of signing these financial statements, the Company has cash reserves of £5.2m 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, and the latest fundraise is in process.

The Company published the results of the accelerated bookbuild process for the placing and retail offer on 19 May 2023, which is for 240,000,000 new ordinary shares at a price of 2.5 pence per share, equating to gross proceeds of £6 million. The open offer has a maximum limit of £2 million (before expenses) and runs to 7 June 2023. The placing, retail offer and open offer are only conditional on approval at a General Meeting of the Company's shareholders on 8 June 2023. The directors believe that all resolutions required to execute the placing, retail offer and open offer will be successfully approved at the general meeting as a matter of course, with proceeds to be received shortly after. Once the amounts from the fundraise are received, which is expected by 16 June 2023, the Group forecast this will provide sufficient cash for trading until December 2023.

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 $40m (approximately £32m). The Company plans to raise the balance from the placing, the retail offer and the open offer equity raise launched on 18 May 2023 and additional investors for the convertible loan note instruments. The convertible loan notes are also subject to shareholder approval.

At the date of signing these financial statements, the Company does not have firm commitments from any additional investors into the convertible loan notes and has set a deadline of 30 September 2023 for completing this part of the fundraise.

The directors reviewed the Company's business plan and cash flow forecasts on the basis that the placing 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 £6m equity fund raise launched on 18 May 2023, to be able to continue as a going concern for at least twelve months from the date of the financial statements.

At the time of signing these financial statements, 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 financial statements do not include any adjustments that would arise if the Company and Velocys plc were unable to continue as a going concern.

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

Financial risk management policies
Financial risk management policies are set out in the Strategic report on pages 26 to 29, and in note 29.

Capital management policies
Capital management policies are set out in note 29.

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 fundraises 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 consolidated 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:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- 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.

Notes to the consolidated financial statements

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Inherent in the application of several of the accounting policies used in preparing the consolidated financial statements is the need for management to make judgements and estimates that affect the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses. Actual outcomes could differ from the estimates and assumptions used.

The accounting judgements and estimates that have a significant impact on the results of the Company are set out in the table below, and full details are provided in the relevant note to the financial statements.

	Note
Items involving a critical estimate or judgement	
Acquisition of Rula Developments (Immingham) Ltd	4
Revenue recognition under IFRS 15	6 and 28
Share-based payments	15
Intangible assets – impairment assessment	19
Financing arrangement	25

4. ACQUISITION OF RULA DEVELOPMENTS (IMMINGHAM) LTD

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

As at 31 December 2021, the Company was actively seeking to sell the entire share capital of RDIL to a third party in order to fund the deferred consideration. Following the reporting period end, in March 2022, RDIL was sold to a subsidiary of Foresight Group LLP, with a call option to repurchase RDIL within three years. The assets of RDIL have been presented in the consolidated financial statements as non-current assets because the existence of the call option means the 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 estimates and accounting judgements and estimates

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 activities 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 25 enabled the Company to settle the full amount of the deferred consideration due, in March 2022.

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

	Book value £'000	Adjustment £'000	Fair value £'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. This exact amount was settled in March 2022, and therefore management consider that this value at 31 December 2021 is appropriate.

5. SEGMENTAL INFORMATION

The Company's main operating decision-making unit is the Executive management team made up of the Chief Executive Officer and the Chief Financial Officer. The Executive management team reviews the Company's internal reporting in order to assess performance and allocate resources and has determined the operating segments based on these reports.

The Executive management team considers that the business comprises a single activity, which is the design, development, marketing and sale of technology for the production of sustainable transport fuels. This includes facilitating project development by putting together partnerships with technology licensors, engineers, feedstock suppliers, the off takers who purchase the fuel and financing entities. The Executive management team reviews the Company's profit or loss and its cash flows, assets and liabilities on a consolidated basis. In carrying out these reviews, the Executive management team considers all material items of income and expenditure that are directly attributable to individual commercial projects and development programmes. The internal management reports do not allocate assets and liabilities or shared overheads to individual products or projects.

The business has one segment on the basis that the key end use market is that of sustainable transport fuels production. At this stage, the synthetic fuels segment represents 100% of the business and therefore represents the only material segment. Based on management's judgement, all products and services offered within the operating segment have similar economic characteristics.

Internal and external reporting is on a consolidated basis, with purchases and sales between subsidiaries eliminated on consolidation. Therefore, the segmental and financial information is the same as that set out in the financial statements.

The Chief Executive Officer assesses the performance of the operating segment based on a measure of operating loss.

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

	2022 £'000	2021 £'000
Asia Pacific	157	151
Americas	–	8,132
Europe	84	–
Total revenue	241	8,283

The total amount of revenue recognised from customers where revenue comprises 10% or more of Company revenue is as follows:

	2022 £'000	2021 £'000
Customer 1	157	8,132
Customer 2	84	151
Total revenue	241	8,283

Non-current assets held in the United States are as follows:

	2022 £'000	2021 £'000
Intangible assets	481	620
Property, plant and equipment	1,165	725
Right-of-use asset	291	415
Total	1,937	1,760

All other non-current assets were held in the United Kingdom and amounted to £11,058,000 (2021: £10,832,000).

Notes to the consolidated financial statements

6. REVENUE

The Company generates revenue through contracts in which it (i) sells Fischer-Tropsch ("FT") reactors, (ii) sells FT catalyst, (iii) sells a technology licence 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 had been met. As such, all consideration received was recognised as revenue in that year.

Critical accounting judgements and estimates

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 of 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.

7. ADMINISTRATIVE EXPENSES

	2022 £'000	2021 £'000
Employee benefit expense (note 8)	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 17)	478	453
Depreciation of right-of-use asset (note 18)	542	459
Amortisation of intangible assets (note 19)	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).

8. EMPLOYEE BENEFIT EXPENSE

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

Pensions
The Company operates various defined contribution pension schemes for its employees. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefit derived from the current and prior periods. The amount charged to the Consolidated income statement in respect of pension costs and other post-retirement benefits represents the contributions payable in the year. Differences between contributions payable and contributions actually paid are accrued. The Company has no further payment obligations once the contributions have been paid. 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	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 related costs	90	–
Share-based payments (note 15)	499	293
Total remuneration before reclassification of wages and salaries	8,245	6,513
Allocation of wages and salaries to cost of goods	(90)	(203)
Total employee benefit expense (note 7)	8,155	6,310

Wages and salaries for the year ended 31 December 2022 include accrued 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.

Details of directors' remuneration are given in the audited information in the Directors' remuneration report on pages 45 to 46, which forms part of these financial statements.

9. AUDITORS' REMUNERATION

	2022 £'000	2021 £'000
Payable to PricewaterhouseCoopers LLP and its associates:		
For the audit of the parent company and consolidated financial statements in respect of the current year	222	202
For the audit of the parent company and consolidated financial statements in respect of the prior year	15	–
For the audit of the financial statements of subsidiaries of the parent company in respect of the current year	40	58
For the review of the interim consolidated financial statements in respect of the current year	44	40
Total	321	300

Notes to the consolidated financial statements

10. 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

11. 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

12. FINANCE COSTS

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

13. INCOME TAX CREDIT

Current tax, including UK corporation tax and foreign tax, is provided for at the amount expected to be paid (or recovered) based on the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

	2022 £'000	2021 £'000
Current tax:		
R&D tax charge/(credit) relating to prior years	5	(162)
R&D tax credit relating to current year	(760)	(887)
Current tax total	(755)	(1,049)
Income tax total	(755)	(1,049)

Due to the availability of losses incurred in the year, there is no charge to corporation tax. The Company recognised £755,000 for R&D tax credits (2021: £1,049,000). The credit relating to the current year is on an accruals basis, which is an estimate of the amount to be claimed from HMRC based on the assessment of the Company's projects, to determine which ones qualify under HMRC's rules, and to estimate the level of allowable cost within each, based on the nature of costs.

The actual tax credit for the current and previous year is lower than the notional amount that would arise using the weighted average tax rate applicable to the results of the consolidated entities, for the reasons set out in the following reconciliation.

	2022 £'000	2021 £'000
Loss before income tax	(13,954)	(9,490)
Tax calculated at domestic tax rates applicable to losses in the respective countries	(2,790)	(1,898)
Tax effects of:		
Expenses not deductible for tax purposes	90	34
Remeasurement of deferred tax for changes in tax rates	–	(4,096)
Unutilised tax losses for which no deferred tax asset is recognised	2,700	5,960
R&D tax credit	(755)	(1,049)
Income tax total	(755)	(1,049)

The weighted average applicable tax rate was 20% (2021: 20%).

IAS 12, Income taxes, requires current and deferred income taxes to be measured based on the tax laws that are enacted or substantively enacted as of the balance sheet date of the relevant reporting period. Substantive enactment is achieved when any future steps in the enactment process are unlikely to change the outcome.

In the Spring Budget 2021, the UK Government announced that the headline UK corporation tax rate would increase from 19% to 25% from 1 April 2023 on profits in excess of £250,000. A small profits rate of 19% will apply to profits of £50,000 or less and for companies with profits in between these amounts there will be a gradual increase in the effective corporation tax rate. As this new law was substantively enacted on 24 May 2021, current tax is calculated at 19% and deferred tax at 31 December 2022 is calculated at 25% (31 December 2021: 25%).

Unrecognised US deferred tax balances have been measured at 21% (recognised: £nil).

14. DEFERRED TAX

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affected neither accounting nor taxable profit or loss. Tax amounts are determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the parent company and it is probable that the temporary difference will not reverse in the foreseeable future.

There was no recognised deferred tax in the year or the comparative period.

	2022 £'000	2021 £'000
Unrecognised Deferred tax assets		
Trading losses	(37,553)	(33,031)
Share based payments	(90)	(304)
Total	(37,643)	(33,335)

At 31 December 2022, the Company had a net unrecognised deferred tax asset of £37,553,000 (2021: £33,031,000) arising from trading losses since incorporation. No recognition (2021: £nil) of the net deferred tax asset has been made at 31 December 2022 on the grounds of uncertainty over its recoverability in light of the Company's nascent revenue streams and commitment to continued investment in the development of its technology, and therefore there is no impact on the current or prior year income statement.

Of this unrecognised deferred tax asset £23,801,000 (2021: £17,068,000) is anticipated to remain available indefinitely to offset against future taxable trading profits of the entities in which the losses arose. The remainder has expiry dates between 2023 and 2037 (2021: 2023 and 2037).

The unrecognised deferred tax asset of £90,000 (2021: £304,000) in respect of share based payments is calculated by reference to the intrinsic value of outstanding share options as at 31 December.

Notes to the consolidated financial statements

15. SHARE-BASED PAYMENTS

Velocys plc issues share options to its employees and to employees of its subsidiaries that are accounted for as equity settled. There are a number of schemes covering employees, executive directors and external consultants; most are based on a service period, but some include performance conditions, both market based and non-market based.

Options are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. For options with market performance conditions attached, the Monte Carlo pricing model is used. All other options apply the Black-Scholes model. The fair value calculation of share-based payments requires several assumptions and estimates. Such assumptions and estimates could change and could affect the amount recorded.

The basic assumptions that feed into both models are volatility of the share price, annual risk-free rate and dividend yield. Volatility is estimated using the average daily share price commensurate with the remaining contractual term, the risk-free rate is based on the Bank of England's yield curve tables, and it is assumed no dividend will be paid over the life of the option. Additionally, for the Monte Carlo model, contract term is generally 10 years, adjusted, using management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

At the end of each reporting period, for awards not containing a market condition the Company revises its estimates of the number of options that are expected to vest, based on historical satisfaction of non-market vesting and service conditions. It recognises the impact of the revision to original estimates in the income statement with a corresponding adjustment to shareholders' equity.

When options are exercised, the Company issues new ordinary shares. The proceeds received from the issue of new ordinary shares, net of attributable transaction costs, are credited to share capital and share premium. The Company does not hold any treasury shares.

The number of options outstanding at 31 December 2022 and the expense recognised in the Consolidated income statement was as follows.

	2022		2021	
	Options outstanding	Income statement £'000	Options outstanding	Income statement £'000
Employees UK/US (Special Awards)	16,453,768	137	15,970,000	70
LTIP (executive directors and senior management team)	39,503,754	362	44,198,567	223
Other (consultants)	183,125	–	212,625	–
Total	56,140,647	499	60,381,192	293

Critical accounting judgements and estimates

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. For the measurement of the grant date fair value of equity-settled transactions with employees granted in 2022 and 2021, the Company used a Black-Scholes model and a Monte-Carlo simulation model.

Employees UK/US

In 2022 and 2021, the Company awarded some of its UK and US employees (excluding the executive directors and non-executive directors) with a Special Award grant of options. The UK awards had advanced assurance from the HMRC for EMI qualification. The Special Award encompassed and superseded awarded options in new joiner employment contracts where those options had not yet been granted.

The Special Awards granted vest over a three year period and expire after ten years. The options will normally lapse if the option holder ceases to hold an office or employment within the Company. For options granted in 2022, the exercise price set at the time of grant ranged from 5.68p to 8.00p. For options granted in 2021, the exercise price set at the time of grant ranged from 6.80p to 7.86p. Options are fair valued at grant date using the Black-Scholes model and are expensed over the vesting period.

Movements in the number of options outstanding and their related weighted average exercise prices was as follows.

	2022		2021	
	Weighted average exercise price	**Number of options**	**Weighted average exercise price**	**Number of options**
At 1 January	10.45p	15,970,000	12.24p	16,691,961
Granted	6.89p	5,404,768	7.01p	2,500,000
Forfeited or expired	75.82p	(821,000)	31.49p	(1,621,961)
Exercised	3.00p	(4,100,000)	3.00p	(1,600,000)
At 31 December	8.54p	16,453,768	10.45p	15,970,000

Of the 16,453,768 options outstanding at 31 December 2022, 9,833,333 were exercisable (2021: 13,470,000). The weighted average exercise price of the exercisable shares was 9.69p (2021: 11.09p).

Options outstanding at the end of the year have the following expiry dates and exercise prices.

	2022			2021	
Year of expiry	**Range of exercise price**	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**	**Number of options**
2022	–	–	–	65.97p	10,000
2023	3.00p – 217.33p	64.24p	910,000	187.22p	460,000
2024	213.19p	213.19p	30,000	191.23p	30,000
2025	–	–	–	164.86p	100,000
2026	41.32p	41.32p	10,000	28.95p	70,000
2029	3.00p	3.00p	8,050,000	3.00p	12,800,000
2031	6.80p – 7.86p	7.01p	2,500,000	7.01p	2,500,000
2032	5.68p – 8.00p	6.79p	4,953,768	–	–
Total	3.00 – 217.33p	8.54p	16,453,768	10.45p	15,970,000

In respect of the 5,404,768 options granted in 2022 (2021: 2,500,000), the significant inputs into the Black-Scholes model were as follows:

	2022	**2021**
Weighted average share price at grant date	6.46p	6.99p
Weighted average exercise price	6.89p	7.01p
Expected volatility	102.1%	101.4%
Weighted average annual risk-free rate	1.31%	0.72%
Dividend yield	0%	0%
Weighted average expected life	6.5 years	6.5 years

The weighted average exercise price of the options granted in 2022 was 6.89p (2021: 5.65p).

The total expense recognised in the Consolidated income statement was £137,000 (2021: £70,000).

LTIP options
Long term incentive options (also referred to as "LTIP" and the "Scheme" in the Directors' remuneration report) are awarded to executive directors and senior managers of the Company.

The fair value of the options is recognised from the start of the relevant service period to the end of the vesting period. In 2019, the Remuneration Committee introduced a new annual equity-based incentive scheme for executive directors and senior managers. Under the 2019 Scheme, executive directors and senior managers were awarded (i) time based share options and (ii) performance based awards in equal amounts.

Notes to the consolidated financial statements

15. SHARE-BASED PAYMENTS (CONTINUED)

The time based share options vest and become exercisable on the third anniversary of the grant date and expire after ten years. In 2022, the exercise price set at the time of grant was 8.00p (2021: 7.86p). The options will normally lapse if the option holder ceases to hold an office or employment within the Company. Options are fair valued at the grant date using the Black-Scholes model and are expensed over the vesting period.

The performance awards vest and become exercisable in full on the third anniversary of the grant date provided the Company weighted average market capitalisation for the month preceding that third anniversary reaches a target value. For options granted in 2022, this is at least £156.78 million (2021: £125.55 million). The options expire after ten years. The options will normally lapse if the option holder ceases to hold an office or employment within the Company. Options are fair valued at the grant date using the Monte-Carlo model and are expensed over the vesting period. Provided the performance target is achieved, the option exercise price is 8.00p (2021: 7.86p).

Movements in the number of options outstanding and their related weighted average exercise prices are as follows.

	2022		2021	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	7.64p	44,198,567	7.54p	34,842,671
Granted	6.76p	17,473,514	7.86p	14,088,208
Forfeited or expired	6.27p	(22,168,327)	7.55p	(4,732,312)
At 31 December	8.01p	39,503,754	7.64p	44,198,567

Of the 39,503,754 options outstanding at 31 December 2022, 16,552,804 were exercisable (2021: 8,639,120). The weighted average exercise price of the exercisable shares was 9.40p (2021: 19.64p).

Share options outstanding at the end of the year have the following expiry dates and exercise prices.

	2022			2021	
Year of expiry	Range of exercise price	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
2023	159.00p	159.00p	283,191	159.00p	283,191
2024	153.00 - 163.50p	161.00p	214,543	161.00p	214,543
2025	1.00p	1.00p	32,628	1.00p	141,385
2029	3.00 - 10.00p	4.75p	16,022,442	5.13p	30,967,614
2031	7.86p	7.86p	6,947,800	7.86p	12,591,834
2032	4.50 – 8.00p	6.64p	16,003,150	–	–
Total	1.00 - 163.50p	8.01p	39,503,754	7.64p	44,198,567

In respect of the 17,473,514 options granted in 2022 (2021: 14,088,208), the significant inputs into the Black-Scholes and Monte-Carlo models were as follows:

	2022	2021
Weighted average share price at grant date	6.63p	7.77p
Weighted average exercise price	6.76p	7.86p
Expected volatility	102.1%	101.4%
Weighted average annual risk-free rate	1.39%	0.23%
Dividend yield	0%	0%
Weighted average expected life	6.5 years	6.5 years

The weighted average fair value of the options granted in 2022 was 6.76p (2021: 5.77p).

The total expense recognised in the Consolidated income statement for LTIP options granted to executive directors and employees was £362,000 in 2022 (2021: £223,000).

Other share options

The Company has historically granted share options to a small number of consultants (non-employees) who provided a strategic service to the Company. No options have been granted to consultants since 2015. Options were granted either in respect of a completed service period, in which case they vested immediately, or in respect of a future service period, in which case they vested over periods of up to three years. They expire after ten years. Exercise prices range from 1.00p to the mid-market value of Velocys plc's ordinary shares on the day prior to grant. Options are fair valued at grant date using the Black-Scholes model (which is not the fair value of goods and services received). For a completed service period, fair value is expensed immediately. For a future service period, fair value is expensed over the vesting period.

Movements in the number of consultants' share options outstanding and their related weighted average exercise prices are as follows.

	2022		2021	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	104.15p	212,625	104.15p	212,625
Forfeited or expired	53.10p	(29,500)	–	–
At 31 December	112.37p	183,125	104.15p	212,625

Of the options issued and outstanding at 31 December 2022, all 183,125 were exercisable (2021: 212,625) but none had an intrinsic value. The weighted average exercise price of the exercisable shares was 112.37p (2021: 104.15p).

Share options outstanding at the end of the year have the following expiry dates and exercise prices.

		2022		2021	
Year of expiry	Range of exercise price	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
2022	–	–	–	53.10p	29,500
2024	145.25p	145.25p	21,375	145.25p	21,375
2025	105.25 – 143.50p	108.03p	161,750	108.03p	161,750
Total	53.10p - 145.25p	112.37p	183,125	104.15p	212,625

No options have been granted to consultants in respect of 2022 and 2021.

The share-based payment expense for the year includes a cost of £nil (2021: £nil) relating to options granted to consultants.

Share-based payments charge

The total charge for share-based payments during the year was £499,000 (2021: £293,000) of which £219,000 (2021: £124,000) related to options granted to executive directors; the remainder to other employees.

Notes to the consolidated financial statements

16. 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 (see note 29). Details of share options are given in note 15.

17. 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 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.

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

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 value				
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 value				
At 31 December 2021	–	9,968	1,038	11,006

The addition of £9,820,000 of land in 2021 is in respect of the development site at Immingham, UK. Refer to note 4 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 (2021: £7,217,000).

Notes to the consolidated financial statements

18. RIGHT-OF-USE ASSETS

The Company leases certain buildings 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 the 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 plus the present value of any anticipated dilapidation costs required at the end of the lease term. Any reassessment 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 relating to its 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 value			
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 value			
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

19. INTANGIBLE ASSETS

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

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

Notes to the consolidated financial statements

19. INTANGIBLE ASSETS (CONTINUED)

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 their 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 the reference projects. Whilst there was clear evidence of the Company's progress during 2022, Management also considered the wider economic environment.

Critical accounting judgements and estimates

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 consider 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 value					
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	–	–	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	–	–	7	–	7
At 31 December 2021	7,398	23,681	1,410	96	32,585
Net book value					
At 31 December 2021	–	–	1,081	5	1,086

Notes to the consolidated financial statements

20. COMMITMENTS AND CONTINGENCIES

(a) Commitments

Commitments are not held on the Company's balance sheet as these are executory arrangements that relate to amounts that 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 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 currently under construction and 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 £'000	2021 £'000
Contribution to new building	879	–
Manufacturing equipment	1,866	–
Catalysis laboratory equipment	221	–
Total	2,966	–

(b) Contingent liabilities

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

21. 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 £'000	2021 £'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.

22. TRADE AND OTHER RECEIVABLES

	2022 £'000	2021 £'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 20).

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 Altato project.

Other receivables consist of vendor deposits and sales taxes recoverable.

23. 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 £'000	2021 £'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 20).

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

	2022 £'000	2021 £'000
UK sterling denominated	10,202	16,908
US dollar denominated	3,180	8,584
Euro denominated	1	14
Total	13,383	25,506

24. PROVISIONS

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, 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 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.

Notes to the consolidated financial statements

24. PROVISIONS (CONTINUED)

	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
At 1 January 2022	–	–
Additional provision in the year	229	229
At 31 December 2022	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.

25. OTHER FINANCIAL LIABILITIES

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

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

26. TRADE AND OTHER PAYABLES

	2022 £'000	2021 £'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).

27. OTHER LIABILITIES

Other current liabilities of £322,000 as at 31 December 2022 (2021: £431,000) comprised amounts owed by the Company in respect of the various corporate insurance policies covered by a financing arrangement. Non-current liabilities of £165,000 as at 31 December 2022 (2021: £nil) are in respect of a grant received from JobsOhio which has been deferred until the employment commitments have been fulfilled.

28. DEFERRED REVENUE

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

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

	Catalyst £'000	Reactor £'000	License £'000	Total £'000
At 1 January 2021	3,186	3,771	1,199	8,156
Contract liabilities incurred	–	–	336	336
Released deferred revenue	(3,186)	(3,445)	(1,535)	(8,166)
At 31 December 2021	–	326	–	326
Released deferred revenue	–	(120)	–	(120)
At 31 December 2022	–	206	–	206

The deferred revenue remaining at 31 December 2022, is shown on the balance sheet as a current liability as the work is expected to be completed within twelve months.

Details of the accounting treatment of revenues and the deferred revenue released in 2021 are provided in note 6.

Notes to the consolidated financial statements

29. FINANCIAL INSTRUMENTS

Financial assets

Financial assets are classified upon initial recognition and the classification is based on the guidance in IFRS 9. In accordance with IFRS 9, the Company classifies its financial assets at amortised cost only if both of the following criteria are met: (i) the asset is held within a business model with the objective of collecting the contractual cash flows and (ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The Company holds cash and cash equivalents, and trade and other receivables at amortised cost in accordance with IFRS 9.

The Company's principal financial asset is cash and cash equivalents which comprise bank current accounts and fixed term deposit accounts on fixed terms of interest. Typically, the fixed term deposits range from overnight deposits to three monthly deposits, depending on the Company's working capital requirements.

Trade and other receivables (see note 22) are classified as either non-current assets or current assets. At 31 December 2022 all receivables were current (2021: current).

Financial liabilities

Financial liabilities are classified in accordance with IFRS 9. The financial liabilities of the Company are measured at amortised cost.

Financial liabilities at amortised cost

Financial liabilities at amortised cost include Trade payables (see note 26), all of which are current liabilities, as well as lease liabilities and other financial liabilities. Trade payables are stated at fair value and subsequently held at amortised cost using the effective interest method.
Interest bearing loans and overdrafts are initially recorded at the fair value of proceeds received net of direct issue costs, and thereafter at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are recognised in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financial risks

The Company's exposure to various risks associated with the financial instruments held is discussed below.

Liquidity

The Company's cash usage is significant versus prospective future cash inflows and Velocys is reliant on the continuing support of its shareholders and project partners. The timing of net positive cash flows is difficult to predict given the variables which affect the speed with which the Company's reference projects and other clients' projects can proceed through engineering and construction phases and therefore generate recurring cash inflows.

Cash flow forecasts are reviewed monthly, cash balances are held immediately available as necessary, and surplus funds are placed on time deposits of varying duration.

Cash inflows may come from one, or a combination of, the following sources, with agreements being actively sought from third parties:

- Third-party revenues from engineering services, licensing and technology hardware sales;
- Strategic investment of development capital into either or both of the Bayou Fuels and Altalto projects, expected during 2023; and
- Government grants, namely the Advanced Fuels Fund in 2023 and 2024.

The Company's revenue stream relies on the projects incorporating its technology, securing project finance. The Company's strategy is to take a pro-active role in this process and it has appointed a global financial advisor with expertise in project financing to support the financing plans for the types of projects it is developing.

Capital management

Equity forms the basis of the Company's capital. The objectives when managing this capital are:

- To secure its ability to continue as a going concern;
- To keep its cost of capital low through an optimised capital structure;
- To preserve sufficient funds to protect it against unforeseen events and risks; and
- To be in a position to take advantage of the opportunities that can deliver a return to shareholders.

The Company does not currently pay any dividends due to the net loss making position. In order to maintain or adjust the capital structure, the Company will consider issuing new shares in line with its funding requirements.

Exchange rates
A proportion of commercial activity and development costs are US-dollar denominated. Where possible, revenue is received in US dollars (USD) to act as a natural hedge against this exposure. Additionally, a proportion of liquid assets are held in US dollars. It should be noted that the functional currency for Velocys plc is pounds sterling ("GBP") as it is traded on the AIM market and head-quartered in the UK. Currently all new equity based fundraises are completed in the UK and made in pounds sterling.

The use of financial derivatives is governed by the Company's treasury policies, which are approved by the Board, and provide a set of written principles for the management of these risks. No financial derivatives were used during 2022 or 2021.

The table below illustrates the Company's sensitivity to changes in the US dollar exchange rate at the balance sheet date. The analysis covers only financial assets and liabilities.

	2022		2021	
	Income statement £'000	Equity £'000	Income statement £'000	Equity £'000
GBP: USD exchange rate +/- 10%	207	483	136	880

The Company's exposure to foreign currency risk was in respect of US dollar denominated balances at the end of the reporting period, and expressed in functional currency equivalent was as follows:

	2022 £'000	2021 £'000
Cash and cash equivalents	3,180	8,584
Trade receivables	366	365
Trade payables	135	166

Credit
The Company's credit risk is primarily attributable to its trade receivables, which are concentrated in a small number of high value customer accounts. This risk is managed by carrying out relevant financial checks on customers, and where necessary, requiring letters of credit or advance payments.

The credit risk of liquid funds is limited through a Company treasury policy, maintained to ensure that liquid assets are only placed with highly-rated institutions, and that the spread of such assets restricts exposure to any one counterparty. Risk is assessed using an external credit rating agency's long-term ratings.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

Interest rates
Variations in interest rates affect only Velocys' cash holdings, as interest on its borrowing is payable at a fixed rate.

The Company had no borrowings, other than lease liabilities and the financing arrangement with Foresight (see note 25), at 31 December 2022.

As far as the cash flow forecast allows for certainty, excess funds are placed on fixed rate term deposits. The effect of interest rates on exchange rates is not anticipated.

Financial assets are as follows.

	31 December 2022		
	Assets at amortised costs £'000	Assets at fair value through profit or loss £'000	Total £'000
Assets			
Trade and other receivables excluding non-financial assets	–	–	–
Cash and cash equivalents	13,383	–	13,383
Total	13,383	–	13,383

Notes to the consolidated financial statements

29. FINANCIAL INSTRUMENTS (CONTINUED)

	31 December 2021		
	Assets at amortised costs £'000	Assets at fair value through profit or loss £'000	Total £'000
Assets			
Trade and other receivables excluding non-financial assets	6	–	6
Cash and cash equivalents	25,506	–	25,506
Total	25,512	–	25,512

The credit risk of short-term investments, and cash and cash equivalents is summarised in the following table.

	2022		2021	
Short-term bank deposits, cash at bank and in hand	£'000	%	£'000	%
Aa2	7,913	59	7,598	30
Aa3	2	–	780	3
A1	5,468	41	17,128	67
Total	13,383	100	25,506	100

Financial liabilities are as follows.

	31 December 2022	
	Financial liabilities at amortised cost £'000	Total £'000
Liabilities as per balance sheet		
Trade and other payables excluding non-financial liabilities	289	289
Accruals	2,230	2,585
Lease liabilities	426	426
Other financial liabilities	10,095	10,095
Other liabilities	487	487
Total	13,527	13,882

	31 December 2021	
	Financial liabilities at amortised cost £'000	Total £'000
Liabilities as per balance sheet		
Trade and other payables excluding non-financial liabilities	593	593
Accruals	2,173	2,173
Lease liabilities	586	586
Other liabilities	431	431
Total	3,783	3,783

The contractual maturity of financial liabilities is as follows.

	2022 £'000	2021 £'000
Within one year	3,947	3,594
Within two to five years	9,935	189
Total	13,882	3,783

The financial liabilities payable within one year, consisting primarily of trade payables and year end accruals, will be paid in accordance with the terms of the agreements, generally 30 to 60 days. Details of Other financial liabilities are disclosed in note 25.

30. CALLED UP SHARE CAPITAL AND RESERVES

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

	Number of shares* (thousands)	Ordinary shares £'000	Share Premium £'000
At 1 January 2021	1,064,156	10,642	199,701
Proceeds from share issues	327,815	3,278	22,944
Expenses of share issues	–	–	(1,618)
Proceeds from exercise of options	1,600	16	32
At 31 December 2021 and 1 January 2022	1,393,571	13,936	221,059
Proceeds from exercise of options	4,100	41	82
At 31 December 2022	1,397,671	13,977	221,141

Notes

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

Ordinary shares

Ordinary shares have a par value of 1 pence. They entitle the holder to participate in dividends, and to share in the proceeds of winding up the Company in proportion to the number of and amounts paid on the shares held.

In December 2021, Velocys completed a gross fundraise of £26.2m (£24.6m net of fees and expenses). This constituted a Placing and Open Offer of 327,814,974 Ordinary shares at a price of 8 pence. These shares represented 24% of the enlarged Ordinary share capital.

A total of 56,249,405 (2021: 60,381,192) options to subscribe for Ordinary shares of Velocys plc have been granted and are outstanding at 31 December 2022 under the employee option schemes operated within the Company and contracts for options granted to a limited number of consultants. Details are given in note 15.

Reserves

Foreign exchange reserve relates to the exchange differences arising from the retranslation of the results and opening net assets of foreign subsidiaries. Changes in the reserve are included in other comprehensive income. At 31 December 2022, the Company's foreign exchange reserve was a credit balance of £2,740,000 (2021: £3,151,000).

The share-based payment reserve records the IFRS 2 charge for equity settled share-based payment awards. At 31 December 2022, the Company's share-based payment reserve was £3,164,000 (2021: £2,638,000).

31. NET CASH RECONCILIATION

This section sets out an analysis of net cash and the movements in net cash for each of the periods presented.

	2022 £'000	2021 £'000
Cash and cash equivalents	13,383	25,506
Lease liabilities	(426)	(586)
Other financial liabilities	(10,095)	–
Net cash	2,862	24,920
Cash and cash equivalents	13,383	25,506
Gross debt – fixed interest rate	(10,521)	(586)
Net cash	2,862	24,920

Notes to the consolidated financial statements

	Liabilities from financing activities				
	Other financial liabilities £'000	Leases £'000	Sub-total £'000	Cash/bank overdraft £'000	Total £'000
Net (debt)/cash as at 1 January 2021	(523)	(740)	(1,263)	13,051	11,788
Cash flows	–	169	169	12,759	12,928
Loan forgiveness	523	–	523	–	523
Foreign exchange adjustments	–	(15)	(15)	(304)	(319)
Net (debt)/cash as at 31 December 2021	–	(586)	(586)	25,506	24,920
Cash flows	(9,350)	217	(9,133)	(12,222)	(21,355)
Interest	(745)	–	(745)	–	(745)
Foreign exchange adjustments	–	(57)	(57)	99	42
Net (debt)/cash as at 31 December 2022	(10,095)	(426)	(10,521)	13,383	2,862

32. RELATED PARTIES

With the exception of transactions between the Company and its wholly-only subsidiaries, there were no material related party transactions in the year ended 31 December 2022.

In the year ended 31 December 2021, the participation of Lansdowne Partners in the December 2021 Placing constitutes a related party transaction under AIM Rules as Lansdowne Partners is considered a substantial shareholder (within the meaning of the AIM Rules). Lansdowne Partners subscribed for 71,405,393 Placing shares at the Placing price of 8.00p per share. The directors, having consulted with the Company's nominated advisor, consider that the terms of the related party transaction were fair and reasonable.

33. POST FINANCIAL POSITION EVENTS

Master relationship agreement executed with Bechtel Limited

In January 2023 the Company signed a master relationship agreement ("MRA") with Bechtel Limited ("Bechtel"), a leading worldwide provider of engineering, construction and project management services setting out a route map for the parties to collaborate with each other.

As the Company's SAF project delivery partner, the aim is to develop a centre of excellence model and provide front end project engineering and other technical services to Velocys' SAF project portfolio. Through the MRA, Velocys and Bechtel will collaborate in the development of an investable EPC execution model for the Company's reference projects.

Under a separate continuing technical services agreement, Bechtel is providing front end project engineering and certain other technical services to support the development of Velocys' SAF project portfolio. In particular, from April 2023 Bechtel has started working on delivery of the Altalto Immingham project FEED phase.

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

On 19 May 2023, the Company announced the results of an accelerated book build process for a placing and retail offer of the Company's ordinary shares for a total of £6 million (before expenses), with the process expected to complete on 9 June 2023 following the approval required at a General Meeting of the Company's shareholders on 8 June 2023. An 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.

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 £32 million (including the equity raise announced on 18 May 2023 and the convertible loan note commitment for approximately £12 million).

The convertible loan notes are structured to incentivise a US dual listing of Velocys. The convertible loan notes have no coupon subject to achieving a US listing prior to the 22-month anniversary post completion. The convertible loan notes have zero coupon for the first 22 months from issue. However, in the event that a US listing has not occurred by the 22 month anniversary of the issue of the convertible loan notes, an aggregate of 12.5 percent. interest will accrue from the issue date.

As part of the placing, Lansdowne Partners (UK) LLP, a substantial shareholder of the Company has subscribed for a total of 48,000,000 placing shares at the placing price of 2.5 pence. Certain directors of the Company, being Henrik Wareborn, Philip Sanderson, Philip Holland, Ann Markey, and Thomas Quigley, all of which are deemed to be a related party pursuant to the AIM Rules, have subscribed for an aggregate of 2,400,000 placing shares at the placing price of 2.5 pence.

Velocys plc statement of financial position

As at 31 December 2022

	Note	2022 £'000	2021 £'000
Assets			
Non-current assets			
Investments in subsidiaries	10	9,445	9,244
Property, plant and equipment	11	19	7
Right-of-use asset	12	108	85
		9,572	9,336
Current assets			
Trade and other receivables	13	18,855	19,250
Current income tax asset	8	626	706
Cash and cash equivalents		9,333	15,395
		28,814	35,351
Total assets		38,386	44,687
Liabilities			
Non-current liabilities			
Provisions	14	(7)	–
		(7)	–
Current liabilities			
Trade and other payables	15	(1,054)	(1,141)
Lease liabilities	12	(107)	(94)
Other liabilities	16	(197)	(344)
		(1,358)	(1,579)
Total liabilities		(1,365)	(1,579)
Net assets		37,021	43,108
Equity			
Called up share capital	18	13,977	13,936
Share premium account	18	221,141	221,059
Share-based payment reserve	18	3,137	2,638
Accumulated losses		(201,234)	(194,525)
Total equity		37,021	43,108

The notes on pages 98 to 106 are part of these parent company financial statements.

The parent company's loss on ordinary activities after tax was £6,709,000 (2021: £7,897,000)

The financial statements on pages 95 to 106 were approved and authorised for issue by the Board of Directors on 24 May 2023 and signed on its behalf below by:

Henrik Wareborn

Henrik Wareborn
Chief Executive Officer

Company number 05712187

Velocys plc statement of changes in equity

For the year ended 31 December 2022

	Called up share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 2021	10,642	199,701	16,345	(200,628)	26,060
Net loss for the year	–	–	–	(7,897)	(7,897)
Total comprehensive expense	–	–	–	(7,897)	(7,897)
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	2,638	(194,525)	43,108
Net loss for the year	–	–	–	(6,709)	(6,709)
Total comprehensive expense	–	–	–	(6,709)	(6,709)
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	3,137	(201,234)	37,021

The notes on pages 98 to 106 are part of these parent company financial statements.

Velocys plc statement of cash flows

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Cash flows from operating activities			
Operating loss		(9,721)	(8,706)
Depreciation		147	52
Impairment of loans due from subsidiaries	4	2,327	1,981
Share based payments		298	170
Changes in working capital:			
Trade and other receivables		–	(306)
Trade and other payables		(87)	799
Other liabilities		((250))	344
Cash consumed by operations		(7,286)	(5,666)
Tax credit received		802	755
Net cash used in operating activities		(6,484)	(4,911)
Cash flows from investing activities			
Loans advanced to subsidiary undertakings		395	(11,120)
Purchase of property, plant and equipment		(17)	(7)
Net cash used in investing activities		378	(11,127)
Cash flows from financing activities			
Proceeds from issue of shares	18	–	26,222
Costs of issuing shares	18	–	(1,618)
Proceeds from exercise of options		123	48
Principal elements of lease payments		(165)	(32)
Net cash (used in)/generated from financing activities		(42)	24,620
Net movement in cash and cash equivalents		(6,148)	8,582
Cash and cash equivalents at beginning of the year		15,395	6,870
Exchange movements on cash and cash equivalents		86	(57)
Cash and cash equivalents at end of the year		9,333	15,395

The notes on pages 98 to 106 are part of these parent company financial statements.

Notes to the financial statements of Velocys plc

1. GENERAL INFORMATION

Velocys plc is a holding company incorporated in England and Wales and domiciled in England. It operates through a number of subsidiaries in the UK and the US, and collectively they are referred to in the financial statements as the "Company" or "Velocys", with Velocys plc as "Velocys plc" or the "parent company". The securities of Velocys plc are traded on AIM, as described in note 1 of the consolidated financial statements.

2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these parent company financial statements are the same as those of the Company unless otherwise specified. An additional accounting policy for the parent company, in respect of its investments in subsidiaries, is disclosed in note 10. The policies have been consistently applied to each year presented unless otherwise stated.

Basis of preparation
The basis of preparation is the same as the Company, as set out on page 66 of the consolidated financial statements. The parent company has taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate income statement and related notes and not to publish a separate statement of other comprehensive income. The comprehensive loss for the parent company for the year was £6,709,000 (2021: £7,897,000).

Going concern
The going concern of Velocys plc is intrinsically linked to that of its subsidiaries, through which it trades in the UK and the US. The going concern basis of preparation is consistent with that set out for the Company. See note 2 of the consolidated financial statements.

Accounting developments
New and amended standards adopted by the parent company
There are no standards that are not yet effective and that would be expected to have a material impact on Velocys plc in the current or future reporting periods or on foreseeable future transactions.

Financial risk management policies
Financial risk management policies are set out in the Strategic report on pages 26 to 29, and in note 29 of the consolidated financial statements.

Capital management policies
Capital management policies are set out in note 29 of the consolidated financial statements.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

In applying the parent company's relevant accounting policies set out in note 2, the parent company is required to make certain judgements and estimates concerning the future. Although estimates are based on management's best knowledge of the amount and or timing, actual results ultimately may differ.

The judgements and estimates that have the most significant effect on the amounts included in these financial statements are listed below and described in the relevant note.

Item of critical estimate	Note
Investment in subsidiaries - impairment assessment	10
Trade and other receivables - expected credit loss analysis	13
Share based compensation	6

4. EXCEPTIONAL ITEMS

Items that are significant by virtue of their size or nature, which are considered non-recurring are classified as exceptional items. They include, for instance, impairments to the parent company's loans due from subsidiaries. Exceptional items are included within the parent company income statement (which is not disclosed) and are highlighted separately in the notes to the financial statements.

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

	2022 £'000	2021 £'000
Impairment of loans due from subsidiaries	(2,327)	(1,981)
Total	(2,327)	(1,981)

At the end of 2022 and 2021, the parent company reviewed for impairment its investments in subsidiaries by reference to the respective closing market capitalisation value. It concluded that no impairment was required at 31 December 2022 or at 31 December 2021 as the market capitalisation value significantly exceeded the book value of its investments in subsidiaries.

The parent company recorded a total loss allowance at 31 December 2022 of £6,194,000 (2021: £3,864,000) in respect of loans made to subsidiaries, following an assessment of expected credit losses. Further details are set out in note 13.

5. REVENUE

The parent company generates revenue through contracts with its subsidiary companies to provide a licence for the use of its intellectual property associated with the catalyst and reactors both of which have been specifically designed and over which the parent company and its subsidiaries hold a significant number of patents. Royalties are invoiced and paid in accordance with the underlying licence agreements which state Velocys plc will share in 50% of the licence fees earned by its subsidiaries.

For the year ended 31 December 2022, the parent company recognised royalty revenue of £nil (2021: £nil).

6. 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 parent company operates various defined contribution pension schemes for its employees. The amount charged to the income statement in respect of pension contributions is the contributions payable in the year. Differences between contributions payable and contributions actually paid are accrued. The parent company has no further obligations once the contributions have been paid. As at 31 December 2022, the total amount accrued was £10,000 (2021: £8,000).

Employees
The average monthly number of employees (including executive directors) was as follows.

	2022 number	2021 number
Administration	8	6
Total average headcount	8	6

Their aggregate remuneration comprised the following items.

	2022 £'000	2021 £'000
Wages and salaries	2,376	1,656
Severance related costs	218	–
Short-term non-monetary benefits	24	48
Social security contributions and similar taxes	286	206
Defined contribution pension costs	78	91
Share-based payments granted to directors and employees of the parent company	312	170
Total remuneration	3,294	2,171

Share-based payments relate to directors and employees of Velocys plc only. For details of the charge applicable to subsidiaries of the parent company, please refer to note 10.

For additional information related to Share-based payments, see note 15 to the consolidated financial statements.

Directors' remuneration
Details of the remuneration paid to directors of the parent company are provided in the Directors' remuneration report on page 45.

Critical estimates and judgements
Please refer to note 15 of the consolidated financial statements for the critical estimates and judgements made in relation to the share-based payments.

7. AUDITORS' REMUNERATION

Details of remuneration paid for the audit of the parent company are disclosed in note 9 to the consolidated financial statements.

Notes to the financial statements of Velocys plc

8. INCOME TAX

	2022 £'000	2021 £'000
Current tax		
R&D tax credit relating to prior years	(14)	(161)
R&D tax credit relating to current year	(626)	(706)
Current tax total	(640)	(867)
Income tax total	(640)	(867)

Due to the availability of losses incurred in the year, there is no charge to corporation tax.
The parent company recognised £640,000 for R&D tax credits in 2022 (2021: £867,000).

The actual tax credit for the current and previous year is lower than the theoretical amount that would arise using the tax rate for the reasons set out in the following reconciliation.

	2022 £'000	2021 £'000
Loss before income tax	(7,349)	(8,764)
Tax calculated at domestic tax rates applicable to losses	(1,396)	(1,665)
Tax effects of:		
Expenses not deductible for tax purposes	35	4
Impairment loss not deductible for tax purposes	442	376
Remeasurement of deferred tax for changes in tax rates	–	(2,424)
Unutilised tax losses	919	3,709
R&D tax credit	(640)	(867)
Income tax total	(640)	(867)

In 2022 and 2021, the impairment loss not deductible for tax purposes represents the loss allowance recorded on loans due from subsidiaries as described in notes 4 and 10.

The applicable tax rate was 19% (2021: 19%).

In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the UK corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020 so the unrecognised UK deferred tax balances have been measured at 19% (recognised: £nil). In the Spring Budget 2021, the UK Government announced that the headline UK corporation tax rate would increase from 19% to 25% from 1 April 2023 on profits in excess of £250,000. A small profits rate of 19% will apply to profits of £50,000 or less and for companies with profits in between these amounts there will be a gradual increase in the effective corporation tax rate. As this new law was substantively enacted on 24 May 2021, current tax is calculated at 19% and deferred tax at 31 December 2021 is calculated at 25%.

9. DEFERRED TAX

The parent company has not recognised a deferred tax asset or liability in 2022 (2021: £nil).

	2022 £'000	2021 £'000
Unrecognised – Deferred tax assets		
Trading losses	(10,961)	(10,100)
Share based payments	(90)	(304)
Total	(11,051)	(10,404)

At 31 December 2022, the parent company had a net unrecognised deferred tax asset of £10,961,000 (2021: £10,100,000) arising from trading losses since incorporation. No recognition of the net deferred tax asset has been made at 31 December 2022 (2021: £nil) on the grounds of uncertainty over its recoverability in light of the Company's nascent revenue streams and commitment to continued investment in the development of its biorefineries, and therefore there is no impact on the current or prior year's income statement.

100% of the unrecognised deferred tax asset in respect of trading losses (2021: 100%) is anticipated to remain available indefinitely to offset against future taxable trading profits.

The unrecognised deferred tax asset of £90,000 (2021: £304,000) in respect of share based payments is calculated by reference to the intrinsic value of outstanding share options as at 31 December.

10. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are held by Velocys plc at historical cost less impairment. The net investment that the parent company has in its subsidiary undertakings is its interest in the net assets of that subsidiary.

The carrying amounts of the parent company's Investments in subsidiaries are reviewed at each balance sheet date, or when events or changes in circumstance indicate their carrying value may not be recoverable, to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. To the extent the carrying amount 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.

An impairment loss in respect of Investments in subsidiaries is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised or if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed that which would have been determined if no impairment loss had been recognised.

Critical estimates and judgements

Assets are reviewed for impairment annually and also whenever events or changes in circumstances indicate their carrying value may not be recoverable. In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, a number of indicators of potential impairment.

An impairment assessment was carried out on the parent company's investment in subsidiaries at 31 December 2022 and no impairment was indicated. Velocys plc used the total value of its equity based on the AIM-listed shares of Velocys plc for calculating the recoverable amount, consistent with the impairment analysis performed in the prior year. The market capitalisation value of Velocys plc is linked to its ability to generate future revenues, which in turn, is linked directly to the perfomance of Velocys plc's investment in its subsidiaries where the intellectual property is recognised in the financial statements. The parent company has both equity and debt investments in its subsidiaries, which are compared to the recoverable amount. On this basis, the impairment assessment indicated that the carrying value of the investments in subsidiaries was lower than the recoverable amount, determined by fair value less costs of disposal.

The parent company also decided not to reverse prior year impairments at 31 December 2022, despite the market capitalisation value exceeding the carrying amount of its investments in subsidiaries, as concluded that the current commercial position of the Velocys group, without any significant new customer contracts or additional investors into the reference projects outweighed the other positive aspects considered.

Impairments recorded in Velocys plc's individual financial statements are eliminated through consolidation.

		2022		2021
	Capital contributions to subsidiaries £'000	Total investment in subsidiaries £'000	Capital contributions to subsidiaries £'000	Total investment in subsidiaries £'000
Investments in subsidiaries				
At 1 January	9,244	9,244	9,121	9,121
Capital contributions - in respect of share based payments	201	201	123	123
At 31 December	9,445	9,445	9,244	9,244

Velocys plc has direct investments in the following subsidiary undertakings.

Subsidiary undertakings	Country of incorporation or principal business address	Principal activity	% Holding (all ordinary share capital)
Velocys Technologies Limited*	England and Wales	Exploitation of platform catalyst technologies	100
Velocys (USA Holdings) LLC**	Ohio, USA	Holding company for US subsidiaries	100
Altalto Ltd*	England and Wales	UK reference project operations	100
Velocys Projects Ltd*	England and Wales	UK reference project operations	100

Notes to the financial statements of Velocys plc

10. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The following companies are indirectly owned subsidiaries of the parent company whose immediate parent is not Velocys plc.

Subsidiary undertakings	Country of incorporation or principal business address	Principal activity	% Holding (all ordinary share capital)
Velocys, Inc.**	Delaware, USA	Design, development and exploitation of its microchannel technologies	100
VMH Assets LLC**	Ohio, USA	Holds manufacturing assets in Ohio	100
Altalto Immingham Holdings Ltd*	England and Wales	UK reference project operations	100
Altalto Immingham Ltd*	England and Wales	UK reference project operations	100

The following are dormant subsidiaries.

Dormant subsidiaries	Incorporated	Immediate parent	% Holding
Oxford Catalysts UK Limited*	England and Wales	Velocys plc	100
Oxford Catalysts Trustees Limited*	England and Wales	Velocys plc	100
Velocys Project Solutions, LLC***	Delaware, USA	Velocys (USA Holdings) LLC	100
YellowRock GTL Services, LLC**	Delaware, USA	Velocys (USA Holdings) LLC	100
Ashtabula Energy, LLC***	Delaware, USA	Velocys Project Solutions, LLC	100
JAB Land-Ashtabula LLC**	Ohio, USA	Ashtabula Energy, LLC	100
Westlake GTL, LLC**	Delaware, USA	Velocys (USA Holdings) LLC	100
Taeda Holdings LLC**	Delaware, USA	Velocys (USA Holdings) LLC	100
Taeda (Natchez) Holdings LLC**	Delaware, USA	Taeda Holdings LLC	100
Bayou Fuels LLC**	Delaware, USA	Taeda (Natchez) Holdings LLC	100

Notes

* Located at Magdalen Centre, Robert Robinson Avenue, The Oxford Science Park, Oxford, OX4 4GA, UK.
** Located at 7950 Corporate Boulevard, Plain City, OH 43064, USA.
*** Located at 2603 Augusta Drive, Suite 1175, Houston, TX 77057, USA.

11. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

2022	Furniture and Fixtures £'000	Total £'000
Cost		
At 1 January 2022	40	40
Additions	18	18
At 31 December 2022	58	58
Accumulated depreciation		
At 1 January 2022	33	33
Charge for the year	6	6
At 31 December 2022	39	39
Net book amount		
At 31 December 2022	19	19

2021	Furniture and Fixtures £'000	Total £'000
Cost		
At 1 January 2021	33	33
Additions	7	7
At 31 December 2021	40	40
Accumulated depreciation		
At 1 January 2021	23	23
Charge for the year	10	10
At 31 December 2021	33	33
Net book amount		
At 31 December 2021	7	7

12. RIGHT-OF-USE ASSETS

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

2022	Buildings £'000	Total £'000
Cost		
At 1 January 2022	127	127
Additions	165	165
At 31 December 2022	292	292
Accumulated depreciation		
At 1 January 2022	42	42
Charge for the year	142	142
At 31 December 2022	184	184
Net book amount		
At 31 December 2022	108	108

Notes to the financial statements of Velocys plc

12. RIGHT-OF-USE ASSETS (CONTINUED)

2021	Buildings £'000	Total £'000
Cost		
At 1 January 2021	–	–
Additions	127	127
At 31 December 2021	127	127
Accumulated depreciation		
At 1 January 2021	–	–
Charge for the year	42	42
At 31 December 2021	42	42
Net book amount		
At 31 December 2021	85	85

The addition related to the renewal of the lease in respect of the Company's Oxford headquarters, which was previously leased by a subsidiary of the parent company.

Lease liabilities	2022 £'000	2021 £'000
Current	107	94
Total	107	94

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. These expenses were £nil (2021: £nil).

The total cash outflow in respect of leasing activity was £152,000 (2021: £48,000).

13. TRADE AND OTHER RECEIVABLES

	2022 £'000	2021 £'000
Prepaid costs	225	413
Other receivables	48	68
Amounts due from subsidiary undertakings	18,582	18,769
Total	18,855	19,250

Amounts due from subsidiary undertakings consist of loans with subsidiaries. All amounts are unsecured and are not repayable on demand. The loans automatically renew for a period of twelve months from the anniversary date of 1 January each year. Interest is charged on all intercompany loans at 5%.

A loss allowance of £2,327,000 was recognised in relation to the loans made to subsidiaries (2021: £1,981,000). At 31 December 2022 the total loss provision was £6,194,000 (2021: £3,864,000).

Critical accounting judgements and estimates
The parent company applies the general approach under IFRS9 when measuring Expected Credit Loss ("ECL") on loans with subsidiaries.

In accordance with IFRS9, the parent company determined that there had not been a significant increase in credit risk during the year and the loans were categorised as stage 1. A probability of default of 38.62% (2021: 38.62%) was applied, based on external market data for corporate bond default rates for CCC/C grade bonds. Further analysis was performed to determine a loss given default for each loan, taking into account the available liquid assets of the respective subsidiaries.

14. PROVISIONS

	2022 £'000	2021 £'000
Restoration provision	7	–
Total	7	–

15. TRADE AND OTHER PAYABLES

	2022 £'000	2021 £'000
Trade payables	24	224
Accruals	1,030	917
Total	1,054	1,141

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).

16. OTHER LIABILITIES

	2022 £'000	2021 £'000
Other liabilities	197	344
Total	197	344

Other liabilities comprise amounts owed by the parent company in respect of corporate insurance policies covered by a financing arrangement.

17. FINANCIAL INSTRUMENTS

Financial assets
Velocys plc classifies, measures and accounts for its financial assets in the same way as the Company as a whole, see note 29 to the consolidated financial statements.

Financial risks
The risks that the parent company faces are intrinsically linked to those of the Company, see note 29 to the consolidated financial statements. No mitigation of this risk is taken at parent company level.

Financial assets and liabilities are held at amortised costs and are as follows.

	2022 £'000	2021 £'000
Assets		
Cash and cash equivalents	9,333	15,395
Trade and other receivables excluding non-financial assets	273	481
Amounts due from subsidiary undertakings	18,582	18,769

Notes to the financial statements of Velocys plc

17. FINANCIAL INSTRUMENTS (CONTINUED)

	2022 £'000	2021 £'000
Liabilities		
Trade and other payables excluding non-financial liabilities	24	224
Other liabilities	197	344

18. CALLED UP SHARE CAPITAL

Disclosures in respect of the share capital of Velocys plc are provided in note 30 to the consolidated financial statements.

Disclosures in respect of share options outstanding and share-based payments are provided in note 15 to the consolidated financial statements.

19. COMMITMENTS

The parent company has no capital commitments (2021: nil).

20. RELATED PARTIES

The participation of Lansdowne Partners in the December 2021 Placing constitutes a related party transaction under the AIM Rules as Lansdowne Partners is considered a substantial shareholder (within the meaning of the AIM Rules). Landsdowne Partners subscribed for 71,405,393 Placing Shares at the Placing Price of 8 pence per share. The Directors consider, having consulted Panmure Gordon (UK) Limited, the Company's nominated advisor, that the terms of the related party transaction were fair and reasonable.

21. POST FINANCIAL POSITION EVENTS

Disclosures in respect to post financial position events are provided in note 33 to the consolidated financial statements.

Directors, secretary and advisors to the Company

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Velocys plc registration no. 05712187

Directors

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Henrik Wareborn	(Chief Executive Officer)
Philip Sanderson	(Chief Financial Officer)
Darran Messem	(Senior Independent Director)
Ann Markey	(Non-Executive Director)
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Company secretary
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Notes

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