News release

Velocys plc

("Velocys" or "the Company")

26 September 2018

Interim results for the six months ended 30 June 2018

Velocys plc (VLS.L), the renewable fuels company, is pleased to announce its interim results for the six months ended 30 June 2018.

David Pummell, CEO of Velocys, said:

"In the first half, Velocys continued to make excellent progress against its renewable fuels strategic plan. We continue to drive forward our two main projects to develop biorefineries in the US and UK and implement the supply chain that will deliver our reactors and catalyst to the Red Rock Biofuels facility now under construction. ENVIA successfully delivered Velocys' central objective: the demonstration of its technology at commercial scale. The Company fully supports the decision by the ENVIA Board to suspend plant operations and review all strategic options.

"We are driven to unlock and deliver great value from renewable fuels for our customers, our partners, our investors, our employees and the communities in which we operate. To that end, over the coming months we remain focused on securing strategic investors into our Mississippi project and driving forward our UK waste-to-sustainable jet fuel project with our industrial partners Shell and British Airways."

Highlights

- Excellent progress made delivering Velocys' renewable fuels strategy
- Mississippi (Bayou Fuels) biorefinery:
  - Significant environmental milestone reached, with the USDA issuing of a Finding of No Significant Impact on the environmental assessment report.
  - Competitive process underway to introduce one or more strategic partners to assist with funding c. $60m of development capital necessary to FID.
- UK waste-to-sustainable jet fuel project:
  - Partner funding of £4.5m secured for next stage of development.
  - Project awarded £434k from the UK Department for Transport under the Future Fuels for Flight and Freight Competition (F4C).
- Red Rock Biofuels: Biorefinery commenced construction. Notice to proceed issued to Velocys. £4.5 million out of a total £11.4 million has been received.
- ENVIA:
  - Significant commercial value extracted.
  - Generation of Renewable Identification Numbers (RINs) announced in January 2018, with RINs verified in March 2018.
  - Reactor leak detected in May 2018. It has been independently verified that the ancillary coolant system was its root cause and that it was not a result of any flaw in the core Velocys technology.

- ENVIA Board voted September 2018 to suspend operations and to undertake a review of strategic alternatives in order to preserve the value inherent in the facility.

- PQ Corporation announced as Velocys' partner for the supply of commercial quantities of the Company's proprietary catalyst for multiple biorefineries.
- Revenue of £0.4m (H1 2017: £0.2m).
- Operating loss of £11.0m, before exceptional items of £14.3m (H1 2017: £9.4m before exceptional items of £0.7m).
- Cash* at period end £8.7m (31 December 2017: £2.1m).
- H1 2018 cash inflow/outflow +£8.9m (H1 2017: -£5.1m).
- Fundraises of approximately £18.4m (before expenses) in January 2018 and £6m (before expenses) in July 2018 (post-period end).
- Impairments of the remaining book value of £15.1m of the ENVIA investment in associate and loan note.
- As required via recent changes to AIM Rule 26, the Company confirms that it has adopted the QCA Corporate Governance Code, which highlights its continued focus on good governance and maintaining a high degree of trust and transparency with its shareholders and other stakeholders.

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

Outlook

- Detailed due diligence engagement has commenced with a number of highly attractive relevant strategic investors for the Mississippi biorefinery.
- Detailed pre-FEED (Front End Engineering and Design) engineering study and site permitting activities ongoing at the UK waste-to-sustainable jet fuel project, with next stage to be developed by Velocys and industry partners Shell and British Airways.

- Ends –

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Certain information contained in this announcement would have constituted inside information (as defined by Article 7 of Regulation (EU) No 596/2014) prior to its release as part of this announcement.

www.velocys.com

Chairman's statement
Pierre Jungels, CBE

In 2017 we announced a strategic shift to become a renewable fuels company. As we pass into the second half of 2018, we are well on our way to executing on that plan. When I look at the past 12 months I see a company that is delivering on its key projects, securing partnerships with leading public and private sector entities and raising capital necessary to meet aggressive goals. Enveloping it all is a climate increasingly driven by demand for sustainable solutions.

Businesses & Consumers Demand Sustainability

The delivery of our US and UK projects as well as the Red Rock Biofuels project comes at a time of increased global demand for sustainable energy solutions, especially among the private sector. In fact, some of the world's largest and most admired brands have committed to 100 percent renewable energy, including Google, Ikea, Apple, Facebook, Microsoft, Coca-Cola, Nike, GM and Lego among many others. When you add in the efforts of the aviation industry, including the likes of our partner British Airways, I believe we've reached a tipping point towards corporate commitment to renewables and the ultra-clean fuels we will produce.

We Are Positioned to Benefit

We are best positioned to deliver this demand through the development of our projects in the US and UK, both of which surpassed critical milestones this year. These facilities, when complete, will offer customers truly clean, low-carbon fuels that will help them achieve their sustainability goals and/or regulatory requirements. In addition, Red Rock Biofuels broke ground on a biorefinery in Oregon, giving Velocys yet another reference point for our technology as well as significant revenues.

Project and Corporate Funding Reflects Confidence

The company's progress on all these fronts was a key factor in the strong and continued backing of our equity fundraisings, as well as new project funding. This funding reflects the promise of our renewable fuel strategy, the belief in the overall strategic plan and the confidence in the team to deliver on it.

ENVIA – delivery of commercial objectives and value

The decision by the ENVIA Board to suspend operations was the financially responsible decision. Velocys had achieved its strategic objective of successfully demonstrating our core FT technology at commercial scale. This in itself represents a significant return on the c£20m we needed to invest to deliver this outcome. ENVIA served its strategic purpose, by de-risking the next phase of our US and UK projects. We now have the key data to input into the engineering design of our biorefineries and this will result in decreased overall project financing risk. A number of other commercial and operational benefits have been achieved ranging from the production of renewable fuels that generated RIN credits under the US Renewable Fuels Standard, selling over 10,000 barrels of in-specification products to off-takers, demonstrating our world class operational capability to commission, start-up and operate biorefineries and overseeing the plant that delivered over two years of operations without a lost time accident. We are very proud of the role we have played in ENVIA and what we have now achieved.

Recognitions

I want to recognize the hard work of the entire team at Velocys as its moves forward to deliver our renewable fuels strategy, as well as the dedication of my fellow board members. In that regard, I wish to recognize Non-Executive Director Julian West, who left the Board in February 2018, and thank him for his contribution to the Company.

Outlook

The path to innovation and disruption is never easy or quick. But successful companies remain agile and driven to keep pushing. We have seen this from Velocys time and again in the past years, and I remain confident that this team will continue to build on the successes of 1H 2018 as we pursue our mission to become the most trusted, reliable and proven provider of clean, sustainable fuels.

Chief Executive's report
David Pummell

Introduction

In 1H 2018, Velocys continued to make excellent progress against its renewable fuels strategic plan. We continue to drive forward our two main projects to develop biorefineries in the US and UK and implement the supply chain that will deliver our reactors and catalyst to the Red Rock Biofuels facility now under construction. The decision by the ENVIA Board to suspend plant operations and review all strategic options for the facility is driven by financial reality.

I am pleased to report that we are making excellent progress towards achieving our goals, and handling developments at ENVIA with care, and will continue to communicate on our progress in due course.

Bayou Fuels biorefinery

In 1H 2018 Velocys commenced a structured, competitive process to secure $60m of development capital investment to progress to FID, from one or more strategic partners into our woody biomass to renewable fuel project at Natchez, Mississippi, known as the Bayou Fuels Project. Our project has attracted interest from a range of parties and this process continues.

After a workstream that was active throughout the first half of the year, in August (post-period end) the U.S. Department of Agriculture (USDA) issued a Finding of No Significant Impact (FONSI) on the environmental assessment report for the biorefinery. This is a significant step in the permitting of the biorefinery. It was gratifying to see that no opposing or negative comments were filed as part of the USDA's public consultation process.

Progress continues to be made on other required workstreams. For example, in the first phase of work which has been completed at our integrated demonstration unit with gasification partner TRI, we have converted biomass feedstock into renewable diesel fuel meeting specifications. In addition, the second phase of the Natchez site's levee construction is progressing on schedule. Our target is now to reach FID in 1H 2020.

UK waste-to-sustainable jet fuel project

In the first half of 2018, Velocys, together with its industrial partners Shell and British Airways, made a major step forward with its UK waste-to-sustainable jet fuel project. A total of £4.9m of funding was secured to deliver the next development phase, now underway, that includes detailed pre-FEED (Front End Engineering and Design) engineering study and site permitting activities. As part of the funding package a grant of £434k was secured from the Department for Transport (DfT) under the Future Fuels for Flight and Freight Competition (F4C). The award of this grant, together with ongoing policy support provided by the Renewable Transport Fuel Obligation, will help this innovative waste-to-fuels project bring jobs and clean growth to the UK. We expect to announce a project location and name in Q4 2018.

Velocys is continuing to lead the project and has committed £1.5m to this next development phase, a significant proportion of which is an in-kind contribution. With Shell and British Airways we have world class partners that share a strategic intent to complete the project.

Red Rock Biofuels

In May 2018 Velocys' customer, Red Rock Biofuels (RRB), began construction on their biorefinery in Lakeview, Oregon, USA, which will incorporate our FT technology. RRB has issued a notice to proceed for the manufacture of our reactors and catalyst. The project is expected to deliver around £11.4 million revenues to Velocys during construction and early operations of the plant, and an additional £22 million or more over the life of the biorefinery. Over £4.5 million of cash has already been received from RRB and will be recognized as revenue in accordance with IFRS 15. The licensing of our technology to Red Rock Biofuels biorefinery is complementary to our strategy to develop our own biorefineries.

ENVIA

In 2Q 2018 we announced the disappointing news that a leak had been detected at the ENVIA Oklahoma City plant that originated inside one of the plant's two FT reactors. ENVIA's subsequent analysis identified the ancillary coolant system as its root cause and that it was not a result of any flaw in the core Velocys technology. This incident root cause has been subsequently independently verified by ENVIA's insurance company.

Since the leak, ENVIA has been operating the plant at reduced capacity using a single reactor to generate products, but in this configuration the plant does not meet the specific process energy requirements applicable under the US Renewable Fuel Standard pathway to generate RINs, which further exacerbates operating losses.

Following careful consideration of the facts, including insurance claim timing, quantum uncertainty, financial projections and available financing, the ENVIA Board decided to suspend operations at the facility. ENVIA is now focused on finding a strategic alternative that will preserve the value inherent in the facility.

Regardless of the ultimate outcome of this review, the Company has extracted significant commercial value from commercial scale plant operation. During the 20 months of operation, Velocys acquired a significant quantity of valuable commercial, technical and operational data and experience, and achieved several milestones, including:

- The world's first of its kind biorefinery that has successfully demonstrated operation of Velocys' Fischer-Tropsch technology, at full commercial scale, from commissioning and start-up through to steady state operation, including nearly two years of operations without a lost time accident.
- Enabled extensive data capture that is commercially important to Velocys, as it progresses its Mississippi biorefinery and UK waste to jet projects and licensing its technology to third parties.
- Sold over 10,000 barrels of products to commercial offtakers.
- The successful manufacture of fuels that have generated RIN credits under the Renewable Fuel Standard (RFS), another key commercial validation of the Velocys technology.

One of the key learnings from the ENVIA project is the absolute imperative of selecting an experienced and competent EPC. Successful operation of the plant required Velocys to move from functioning exclusively as a technology licensor as it was initially, into increasing responsibility for commissioning, start-up, and operations, requiring additional funding and time to commission the plant. The challenging operational experience gained with ENVIA will be used to good effect when we decide our future EPC partners for our own projects.

We intend to provide additional updates on the status of the facility as appropriate.

The first six months of 2018 have been both challenging and highly rewarding as we take forward our complex agenda as pioneers within our chosen markets. Through it all, the team has remained positive and focused on executing on the broad strategy to deliver on our US and UK projects. We are driven to unlock and deliver great value from renewable fuels for our customers, our partners, our investors, our employees and the communities in which we operate.

I am confident that our brightest days are still ahead of us, and that we have both much to be proud regarding our accomplishments and much more work to be done.

Financial review

Revenues

The company recognized revenue of £0.4m (H1 2017: £0.2m). The revenue was primarily the result of engineering services related to the UK waste-to-sustainable jet fuel project.

On 1 January 2018, the Company adopted IFRS 15. In accordance with guidance in IFRS 15, most of the revenues of RRB will be recognized in future periods, as discussed in notes 5 and 13 to the accounts.

Operating losses were £11.0m, before exceptional items of £14.3m related to impairments (H1 2017: £9.4m before exceptional items of £0.7m). The increase in operating loss is principally the result of additional costs associated with developing the Bayou Fuels biorefinery and higher consulting costs.

Cash Flow

The Company used £6.0m cash in operations (H1 2017: £7.5m) principally driven by its net loss. The Company had a £3.8m increase in deferred revenue principally as a result of the notice to proceed associated with the Red Rock biofuels projects. The Company continues to carefully manage its underlying cost base and spend prudently on strategy implementation.

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

Impairment

The Company recorded an impairment of £14.3m with respect to the loan to ENVIA and £0.9m with respect to the investment as a result of the Board of Directors of ENVIA's decision to suspend operations and undertake a review of strategic alternatives.

Fundraises

- In January 2018 Velocys raised a total of £18.4m (before expenses) and in July 2018 (post period end) Velocys raised a total of £6.0m (before expenses).
- Via our two placings, we have seen a mix of both strong support from our existing shareholders, for which we are grateful, as well as investment from new shareholders who demonstrated significant support for our strategy.

Net proceeds of the capital raisings are being used predominantly:

- To fund certain development costs for the Mississippi biorefinery project and strengthen the company's balance sheet during the process of on-boarding one or more strategic investors.

- To progress the Company's UK waste-to-renewable jet fuel project, including funding its portion of the pre-FEED development costs.
- To fund the Company's working capital and central operating costs.

Future funding requirements

As discussed in note 1 below, the company has prepared these statements on a going-concern basis although its forecasts show that the Company requires additional external funding within the 12-month forecast period to be able to continue as a going concern.

Consolidated income statement

for the six months ended 30 June 2018

	Note	**6 months ended 30 June 2018 (unaudited)**	**6 months ended 30 June 2018 (unaudited)**	**6 months ended 30 June 2018 (unaudited)**	6 months ended 30 June 2017 (unaudited)	6 months ended 30 June 2017 (unaudited)	6 months ended 30 June 2017 (unaudited)
		£'000	**£'000**	**£'000**	£'000	£'000	£'000
		Before Exceptional items	Exceptional items (note 3)	Total	Before Exceptional items	Exceptional items (note 3)	Total
Revenue	5	392	-	392	234	-	234
Cost of sales		(281)	-	(281)	(52)	-	(52)
Gross profit		111	-	111	182	-	182
Administrative expenses		(11,191)	(14,281)	(25,472)	(9,561)	(701)	(10,262)
Other income		75	-	75	14	-	14
Operating loss		(11,005)	(14,281)	(25,286)	(9,365)	(701)	(10,066)
Share of loss of investments accounted for using the equity method	10	(1,674)	(861)	(2,535)	(259)	-	(259)
Loss before net finance income (costs)		(12,679)	(15,142)	(27,821)	(9,624)	(701)	(10,325)
Finance income	6	2,792	-	2,792	262	-	262
Finance costs		(7)	-	(7)	(541)	-	(541)
Net finance income (costs)		2,785	-	2,785	(279)	-	(279)
Loss before income tax		(9,894)	(15,142)	(25,036)	(9,903)	(701)	(10,604)
Income tax credit		170	-	170	546	-	546
Loss for the period attributable to the owners of Velocys plc		(9,724)	(15,142)	(24,866)	(9,357)	(701)	(10,058)
Loss per share attributable to the owners of Velocys plc							
Basic and diluted loss per share (pence)	7	(2.94)		(7.53)	(6.50)		(6.99)

The results from the periods shown above are derived entirely from continuing operations.

Consolidated statement of comprehensive income

for the six months ended 30 June 2018

	Note	**6 months ended 30 June 2018 (unaudited) £'000**	**6 months ended 30 June 2018 (unaudited) £'000**	**6 months ended 30 June 2018 (unaudited) £'000**	6 months ended 30 June 2017 (unaudited) £'000	6 months ended 30 June 2017 (unaudited) £'000	6 months ended 30 June 2017 (unaudited) £'000
		Before Exceptional items	Exceptional items (note 3)	Total	Before exceptional items	Exceptional items (note 3)	Total
Loss for the period		(9,724)	(15,142)	(24,866)	(9,357)	(701)	(10,058)
Other comprehensive expense							
items that may be reclassified to the income statement in subsequent periods							
Foreign currency translation differences		(1,695)	-	(1,695)	(2,594)	-	(2,594)
Total comprehensive expense for the period attributable to the owners of Velocys plc		(11,419)	(15,142)	(26,561)	(11,951)	(701)	(12,652)

Consolidated statement of financial position
as at 30 June 2018

	Note	**30 June 2018 (unaudited)** £'000	31 December 2017 (audited) £'000
Assets			
Non-current assets			
Intangible assets	8	456	755
Property, plant and equipment		1,763	1,801
Trade and other receivables	9	84	10,284
Investment in associate	10	-	2,580
		2,303	15,420
Current assets			
Inventories	11	720	388
Trade and other receivables	12	1,613	416
Current income tax asset		716	546
Restricted cash		634	620
Cash and cash equivalents		8,662	2,070
		12,345	4,040
Total assets		14,648	19,460
Liabilities			
Current liabilities			
Trade and other payables		(3,742)	(2,621)
Deferred revenue	13	(5,342)	(1,515)
Borrowings		(276)	(268)
		(9,360)	(4,404)
Non-current liabilities			
Trade and other payables		(135)	(98)
Borrowings		(140)	(273)
		(275)	(371)
Total liabilities		(9,635)	(4,775)
Net assets		5,013	14,685
Capital and reserves attributable to owners of Velocys plc			
Called up share capital		3,303	1,468
Share premium account	14	174,872	159,385
Merger reserve		369	369
Share-based payment reserve		16,039	16,085
Foreign exchange reserve		959	2,654
Accumulated losses		(190,529)	(165,276)
Total equity		5,013	14,685

The financial statements were approved by the Board of Directors on 26 September 2018, and were signed on its behalf by:

David Pummell, Chief Executive Officer

Consolidated statement of changes in equity

for the six months ended 30 June 2018

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Share-based payments reserve £'000	Foreign exchange reserve £'000	Accumulated losses £'000	**Total equity £'000**
Balance at 1 January 2017	1,438	149,275	369	15,843	7,065	(110,252)	63,738
Comprehensive income							
Loss for the year	-	-	-	-	-	(54,603)	(54,603)
Other comprehensive expense							
Foreign currency translation differences	-	-	-	-	(4,411)	-	(4,411)
Total comprehensive expense	-	-	-	-	(4,411)	(54,603)	(59,014)
Transactions with owners							
Share-based payments - value of employee services	-	-	-	242	-	-	242
Proceeds from share issues	30	689	-	-	-	-	719
Convertible loan notes	-	9,000	-	-	-	-	9,000
Interest on convertible loan note	-	421	-	-	-	(421)	-
Total transactions with owners	30	10,110	-	242	-	(421)	9,961
Balance at 1 January 2018	1,468	159,385	369	16,085	2,654	(165,276)	14,685
Comprehensive income							
Loss for the period	-	-	-	-	-	(24,866)	(24,866)
Other comprehensive expense							
Foreign currency translation differences	-	-	-	-	(1,695)	-	(1,695)
Total comprehensive expense	-	-	-	-	(1,695)	(24,866)	(26,561)
Transactions with owners							
Share-based payments - value of employee services	-	-	-	(46)	-	-	(46)
Proceeds from share issues	1,835	15,100	-	-	-	-	16,935
Interest on convertible loan note	-	387	-	-	-	(387)	-
Total transactions with owners	1,835	15,487	-	(46)	-	(387)	16,889
Balance at 30 June 2018	3,303	174,872	369	16,039	959	(190,529)	5,013

Consolidated statement of cash flows

for the six months ended 30 June 2018

	6 months ended 30 June 2018 (unaudited) £'000	6 months ended 30 June 2017 (unaudited) £'000
Cash flows from operating activities		
Loss before income tax	(25,036)	(10,066)
Depreciation and amortisation	137	582
Loss on disposal of patents, net	422	148
Impairments	15,142	701
Amortisation of leased inventory	33	-
Share-based payments	15	280
-Trade and other receivables	(1,511)	394
.		
-Trade and other payables	1,125	414
-Inventory	(310)	37
-Change in deferred revenue	3,827	-
Cash consumed by operations	(6,156)	(7,510)
Tax credits received	170	-
Net cash used in operating activities	(5,986)	(7,510)
Cash flows from investing activities		
Loans to Associate	(3,773)	(6,922)
Purchase of property, plant and equipment	(63)	(12)
Purchase of intangible assets	(136)	(197)
Equity investment in ENVIA	1,674	-
Interest received	-	38
Net cash generated from (used in) investing activities	(2,298)	(7,093)
Cash flows from financing activities		
Proceeds from share issues	17,322	9,714
Interest paid	(5)	(9)
Repayment of borrowings	(131)	(172)
Net cash generated from financing activities	17,186	9,533
Net decrease in cash and cash equivalents	8,902	(5,070)
Cash and cash equivalents at the beginning of the year	2,070	18,744
Exchange gains on cash and cash equivalents	(2,310)	167
Cash and cash equivalents at the end of the period	8,662	13,841

Notes to the unaudited interim financial statements

for the six months ended 30 June 2018

1. Basis of preparation and accounting policies

The unaudited interim financial statements have not been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (IFRSs as adopted by the EU), IFRS Interpretations Committee Interpretations, or the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the IAS Regulation. They do not include all the statements required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at 31 December 2017.

Accounting policies
The unaudited interim financial statements have been prepared using the same accounting policies adopted in the Company's financial statements for the year ended 31 December 2017, except as described below.

A number of new standards have been adopted for the current reporting period. The Company has updated its accounting policies to reflect the impact of these standards, which has not resulted in a restatement of prior period comparatives. The standards which have been adopted for the first time and which have had a significant impact on the unaudited interim financial statements are:

• IFRS 9, 'Financial instruments' ("IFRS 9") (Note 16); and
• IFRS 15, 'Revenue from contracts with customers' ("IFRS 15") (Note 5).

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

Judgements and estimates
In preparing these unaudited interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were as stated within the consolidated financial statements for the year ended 31 December 2017, except for the following items.

A judgement was made that the market capitalisation of Velocys plc at the date of announcing the results did not constitute a trigger for further impairment. Applying the same valuation method that was used in the December 2017 accounts gave a fair value in excess of the net assets of the Company. The Company has not recognized a reversal of impairments.

Estimates relating to the fair value of the investment in ENVIA as an associate are contained within Note 10.

Going concern
The unaudited interim financial statements have been prepared on the going concern basis, which assumes that the Company will have sufficient funds available to enable them to continue to trade for the foreseeable future.

The Company expects to develop its projects, in particular, progressing the Mississippi biorefinery and UK waste-to-renewable jet fuel projects, which will require significant development and capital expenditure.

The nature of the Company's nascent strategy means that the timing of milestones and funds generated from developments are difficult to predict at this stage. The directors have prepared financial forecasts to estimate the likely cash requirements of the Company and Velocys plc over the next 12 months from the date of approval of the financial statements.

The forecasts show that the Company requires additional external funding within the 12-month forecast period to be able to continue as a going concern. The directors anticipate that this will come from one, or a combination of, the following three sources, with agreements being actively sought from third parties:

1. Strategic investment of development capital into the Mississippi biorefinery project.
2. Placement of Company ordinary shares, which may occur within the next twelve (12) months.
3. Additional third-party license sales, such as the recently announced Red Rock Biofuels project.

The directors are confident that the funding required for the Company to continue as a going concern will be secured within a period of 12 months from the date of approval of the financial statements and have therefore prepared the unaudited interim financial statements on a going concern basis.

However, as at the date of approval of the unaudited interim financial statements no additional funding is committed beyond the £18.4m fundraise announced in January 2018 and the £6.0m fundraise announced in July 2018 (as explained in the Financial review on pages 7 and 8. Should additional funding not be secured within the 12 months from the date of approval of these financial statements, the Company would not be a going concern. As such, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

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

Accounting developments

A number of new standards and amendments and revisions to existing standards have been published and are mandatory for the Company's future accounting periods. They have not been early adopted in these unaudited interim financial statements. None of these are expected to have a significant impact on the Company's financial statements when adopted.

IFRS 16

This standard will replace IAS 17 Leases and sets out the principles for the recognition, measurement, presentation and disclosure of leases. Lessees will be required to recognise a lease liability reflecting future lease payments and a right-of-use asset for lease contracts. The IASB has included an optional exemption that can be applied by lessees for certain short-term leases and leases of low-value assets. A key change arising from IFRS 16 is that most operating leases will be accounted for on the balance sheet for lessees.

The Company will recognise a right-of-use asset and a lease liability in respect of these commitments on transition. Thereafter the nature of the lease expense will change from rent to depreciation and interest charges. It is not expected that the change in the profile of the remaining expense will have a material impact on the Company's loss before tax.

2. Publication of non-statutory accounts

The unaudited interim financial statements presented in this document have not been audited or reviewed and do not constitute Group statutory accounts as defined in section 434 of the Companies Act 2006. Group statutory accounts for the year ended 31 December 2017 were approved by the Board of Directors on 22 May 2018 and delivered to the Registrar of Companies. The comparative figures for the year ended 31 December 2017 have been derived from the statutory accounts for that year. The auditors' report on those accounts, which was not modified, drew attention to the adequacy of the disclosure made in the financial statements concerning Velocys' ability to continue as a going concern, under section 498(2) or (3) of the Companies Act 2006.

3. Exceptional items

Items that are material because of their size or nature, and/or that are non-recurring are considered as exceptional items and are presented with the line items to which they best relate. Exceptional items, as detailed below, have been included in the consolidated income statement.

Exceptional items were as follows:

	6 months ended 30 June 2018 (unaudited) £'000	6 months ended 30 June 2017 (unaudited) £'000
Administrative expenses		
Impairment of loan receivable	(14,281)	(701)
Share of loss of investments		
Investment in associate	(861)	-
Total	(15,142)	(701)

In the unaudited interim financial statements for the six months ended 30 June 2018, the Company recorded an impairment of £14.3 million with respect to the loan to ENVIA and £861,000 with respect to the investment in associate account as a result of the Board of Directors of ENVIA's decision to suspend operations and undertake a review of strategic alternatives, see Note 16.

4. Segmental information

Business segments
At 30 June 2018 the Company is organised as a world-wide business comprising a single segment.

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

	6 months ended 30 June 2018 (unaudited) £'000	6 months ended 30 June 2017 (unaudited) £'000
Europe	134	-
Americas	247	225
Asia Pacific	11	9
Total	392	234

Revenue recognized during the six months ended 30, June 2018 is related to engineering services. The increase in revenue from Europe is related to Phase 1 of the UK waste-to-sustainable jet fuel project.

5. Revenue

The Company adopted IFRS 15 on 1 January 2018, using the full retrospective transition method.

The comparative figures in the Company's unaudited interim financial statements for the six months ended June 30, 2017 were not required to be restated as a result of the adoption of IFRS 15.

The Company generates revenue through contracts in which it (i) sells reactors, (ii) leases catalyst, (iii) provides license agreements and (iv) performs engineering services. In general, contracts with the Company provide a license agreement for the use of its intellectual property associated with the catalyst, which is used in specifically designed reactors.

The company recognizes revenue from the sale of the reactor and the license agreement as the performance obligations are achieved. Determining whether the services provided are considered distinct performance obligations can require significant judgment. Revenue is allocated to the respective performance obligations based on relative transaction prices and is recognized as services are delivered to the customer. Revenue is measured as the amount of consideration expected to be received in exchange for the services delivered.

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

6. Finance income

	6 months ended 30 June 2018 (unaudited) £'000	6 months ended 30 June 2017 (unaudited) £'000
Interest income on bank deposits	23	36
Interest on loan to associate	533	226
Foreign exchange gains	2,236	-
Total	2,792	262

The £2.2 million increase in foreign exchange gains is the result of day to day changes between the British Pound and the US dollar as it related to the movements on the intercompany loan.

7. Loss per share

The calculation of loss per share is based on the following losses and number of shares:

	6 months ended 30 June 2018 (unaudited)			6 months ended 30 June 2017 (unaudited)		
	Loss £'000	Number of shares '000	Pence per share	Loss £'000	Number of shares '000	Pence per share
Basic & fully diluted	(24,866)	330,323	(7.53)	(10,058)	143,981	(6.99)

8. Intangible Assets

Patents, licences and trademarks

Patents and trademarks are recorded at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over a period of 20 years, which is their estimated useful economic life. Residual values and useful lives are reviewed annually and adjusted if appropriate. The Company decided to abandon certain non-core patents between 2016 and 2018. This resulted in a loss on disposal of patents of £422,000 net (2017: loss of £148,000).

Licences are recorded at the present value of minimum licence payments. Amortisation is charged when related revenue starts to be earned and will be charged on a straight-line basis over the life of the licences. 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 of three years.

Impairment

Intangible 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 carrying value exceeds recoverable amount, the difference is recognised as an expense in the income statement. The recoverable amount used for impairment testing is the higher of value in use and fair value less costs of disposal. For the purpose of impairment testing, assets are generally tested individually or at a cash-generating unit ('CGU') level which represents the lowest level for which there are separately identifiable cash inflows that are largely independent of cash inflows from other assets or groups of assets. The Company has one CGU on the basis that the key end use market is that of synthetic fuels production. At this stage, the synthetic fuels segment represents 100% of the business and therefore represents the only material segment. Based on management's judgement, all products and services offered within the operating segment have similar economic characteristics.

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

Were the fair value of the business to change in the coming 12 months, due to an increase or further decrease in the market capitalisation of Velocys plc, the impairment disclosed in this note could be reversed or the Company's assets would be further impaired accordingly.

The Company did not impair its intangibles in the first half of 2018. The table below presents a rollforward of intangible assets.

Six months ended 30 June 2018	Goodwill £'000	In-process technology £'000	Patents, licences and trademarks £'000	Software £'000	Total £'000
Cost					
At 1 January 2018	7,398	23,681	2,159	96	33,334
Additions	-	-	178	-	178
Disposals	-	-	-	-	-
Write off of patents	-	-	(624)	-	(624)
Foreign exchange movement	-	-	(251)	-	(251)
At 30 June 2018	7,398	23,681	1,462	96	32,637
Accumulated amortisation and impairment					
At 1 January 2018	7,398	23,681	1,404	96	32,579
Charge for the year	-		51		51
Disposals	-	-	-	-	-
Write off of patents	-	-	(202)	-	(202)
Foreign exchange movement	-	-	(247)	-	(247)
At 30 June 2018	7,398	23,681	1,006	96	32,181
Net book amount					
At 30 June 2018	-	-	456	-	456

Six months ended 30 June 2017	Goodwill £'000	In-process technology £'000	Patents, licences and trademarks £'000	Software £'000	Total £'000
Cost					
At 1 January 2017	8,113	25,942	2,248	101	36,404
Additions	-	-	197	-	197
Disposals	-	-	(273)	-	(273)
Foreign exchange movement	(437)	(1,384)	(81)	(4)	(1,906)
At 30 June 2017	7,676	24,558	2,091	97	34,422
Accumulated amortisation					

At 1 January 2017	-	1,628	678	63	2,369
Charge for the year	-	-	69	22	91
Disposals	-	-	(125)	-	(125)
Foreign exchange movement	-	(72)	(23)	(2)	(97)
At 30 June 2017	-	1,556	599	83	2,238
Net book amount					
At 30 June 2017	7,676	23,002	1,492	14	32,184

9. Trade and other receivables: non-current

Non-current trade and other receivables is comprised predominantly of the Company's loan to ENVIA. At 30 June 2018 ENVIA had drawn £13.1 million (December 2017: £9.6 million) of the £14.7 million loan facility made available by Velocys. In the unaudited interim financial statements for the six month period ended 30 June 2017, the Company fully impaired the loan to ENVIA as a result of the Board of Directors of ENVIA deciding to to suspend operations at the Oklahoma City plant and to undertake a review of strategic alternatives.

10. Investment in associate

Investments consist solely of Velocys' holding in ENVIA Energy, LLC (ENVIA) which is the holding company for the project located in Oklahoma (the ENVIA project).

In January 2016, Velocys entered into a financing arrangement with ENVIA under which it contributed additional equity finance of £1.9 million and committed to provide loan finance of up to £6.9 million. As a result of the new funding arrangement, Velocys increased its ownership share and was awarded additional voting rights, taking its share of voting rights from 9% to 28%. The investment has since been recognised as an Investment in associate, reflecting the significant influence that Velocys holds in ENVIA, including voting rights exceeding 20% and a seat on ENVIA's board. The Company recorded the transaction as a step acquisition under the equity method in 2016.

During 2017 and H1 2018 Velocys committed to a series of extensions to the loan, which increased the facility to £14.7 million, however these extensions did not result in a change in the Company's ownership interest or voting rights. The loan note bears interest at 10% and is repayable on 31 December 2019 with an option to extend the maturity date to 31 December 2020. ENVIA had drawn down £13.1 million on this facility as at 30 June 2018 (£ 9.6 million at 31 December 2017).

Impairment

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to share of profit/(loss) of associates in the Income statement.

In September 2018, the Board of Directors of ENVIA announced its intentions to suspend operations at the Oklahoma City plant and to undertake a review of strategic alternatives in order to preserve the value inherent in the facility. As a result of the decision of the Board of Directors of ENVIA, the Company impaired the remaining assets associated with its investment in ENVIA, including the loan to ENVIA. As a result of this impairment the Company recognized, in its 30 June 2018 unaudited interim financial statements, an impairment expense of £15.1 million consisting of an impairment to the investment in associate in the amount of £861,000 and an impairment to the loan to ENVIA in the amount of £14.3 million.

Critical judgements

Share of ENVIA's identifiable assets and liabilities and its share of profit and loss

Under the equity method the profit or loss of the investor includes its share of the profit or loss of the investee. The Company bases the calculation of its share of ENVIA's identifiable assets and liabilities and its net losses on a value distribution model developed by ENVIA that uses the LLC agreement agreed with each of the other parties that hold ownership units. The resulting percentage share differs to both the Company's proportion of ownership units held in ENVIA and its proportion of voting units. This value distribution is considered a more appropriate measure of the Company's economic interest in ENVIA.

	6 months ended 30 June 2018 (unaudited) £'000	Year ended 31 December 2017 (audited) £'000
Investment in associate:		
At 1 January	2,580	5,865
Gain on bargain purchase	-	1,750
Share of loss	(1,674)	(1,784)
Impairment	(861)	(2,736)
Foreign exchange	(45)	(515)
Total	0	2,580

Summarised financial information for ENVIA

Set out below is the unaudited summarised financial information for ENVIA. The information below reflects the amounts presented in the financial statements of ENVIA adjusted for differences in accounting policies between the Company and ENVIA. ENVIA financial statements are not prepared under IFRS but management does not consider Accounting Principles Generally Accepted in the United States of America to be materially different from IFRS for this purpose. The Company's share of equity of ENVIA is 24.2%.

ENVIA Energy, LLC	**6 Months Ended 30 June 2018 (unaudited) £'000**	Year Ended 31 December 2017 (unaudited) £'000
Summarised balance sheet		
Non-current assets	56,384	57,667
Current assets	2,702	2,978
Current liabilities	(896)	(435)
Non-current liabilities	(15,082)	(10,966)
Net assets	43,108	49,244
Summarised statement of comprehensive loss		
Revenue	422	409
Loss from continuing operations	(6,917)	(7,851)
Total comprehensive loss	(6,917)	(7,851)

11. Inventories

Inventories are stated at the lower of cost or net realisable value less provision for impairment. Cost is determined on a first-in, first-out basis and includes transport and handling costs. In the case of manufactured products, cost includes all direct expenditure including production overheads. Where necessary, provision is made for obsolete, slow-moving and defective inventories. Items purchased for use in externally funded research and development projects are expensed to that contract immediately. Items held for the Company's own development are also expensed when acquired. Items purchased for ongoing commercial sale are held in inventory and expensed when used or sold.

	30 June 2018 (unaudited) £'000	31 December 2017 £'000
Raw materials and consumables	432	31
Finished goods	288	357
Total	720	388

The Company had no impairments related to inventory for the period ending 30 June 2018.

12. Trade and other receivables: current

Current trade and other receivables are comprised primarily of amounts billed for Phase 2 of the Company's UK waste-to-sustainable jet fuel project (£1.2 million; 2017: nil).

13. Deferred revenue

Deferred revenues are comprised of the following:

	6 Months Ended 30 June 2018 (unaudited) £'000	Year Ended 31 December 2017 (unaudited) £'000
Red Rock Biofuels	4,450	-
ENVIA Leased Catalyst	892	1,515
Total	5,342	1,515

14. Movement in equity

On 15 January 2018 Velocys announced a gross fundraise of £18.4 million (£17.3 million net of fees and expenses). This constituted a firm placing of Ordinary shares and a conditional placing of Ordinary shares. The firm placing was of 139,605,000 Ordinary shares and the conditional placing was of 44,057,946 Ordinary shares, both at a price of £0.10 with existing and new shareholders. These shares represented 55.5% of the enlarged Ordinary share capital.

15. Financial instruments

On 1 January 2018, the Company adopted IFRS 9. IFRS 9 introduces principle-based requirements for the classification of financial assets, using the following measurement categories:

- Amortized cost
- Fair value through Other Comprehensive Income ("OCI") ("FVOCI") with cumulative gains and losses reclassified to profit or loss upon derecognition
- Fair value through profit loss ("FVPL")

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

At 30 June 2018, Velocys financial assets according to the closing balance sheet date comprise:

- short-term trade and other receivables,
- bank deposits as cash (i.e. less than 3 months' maturity),
- the ENVIA loan (including an embedded derivative), and
- subsidiary loans.

The Company applies the IFRS 9 simplified approach to measuring ECLs which uses a lifetime expected loss allowance for all trade and other receivables and cash. With respect to the ENVIA loan and subsidiary loans, the Company applies the IFRS 9 general approach to measuring credit losses which uses a lifetime expected loss allowance.

As a result of the adoption of IFRS, there was no significant impact to the Company's unaudited interim financial statements.

16. Post-financial position events

Fundraise

In August 2018, the Company completed a fund raise of £6.0 million (before expenses), with the intention that the net proceeds would be used predominantly:

- To strengthen the company's balance sheet;
- To fund its portion of the pre-FEED development costs for its UK waste-to-renewable jet fuel project;
- To allow it to continue to support ENVIA while strategic options are considered in order to maximize the value of the project.
- To support the process for on-boarding one or more strategic investors to provide development funding for the Mississippi biorefinery project.

This fundraise resulted in the issue of 60,000,000 Ordinary shares at a price of £0.10, representing 15.4% of the enlarged Ordinary share capital.

ENVIA

In September 2018, the Board of Directors of ENVIA announced its intentions to suspend operations at the Oklahoma City plant and to undertake a review of strategic alternatives in order to preserve the value inherent in the facility. This decision was driven by financial circumstances following a leak at the plant, as announced on 15 May 2018. ENVIA's investigation into the leak identified the ancillary coolant system as the root cause, which was independently verified through a third-party insurance company.

As a result of the decision of the Board of Directors of ENVIA, the Company impaired the remaining assets associated with its investment in ENVIA. The results of this impairment are included in the unaudited interim financial statement and further discussed, as an exceptional item, see Note 3. The impairment is also covered in the Company's investment in associate footnote, see Note11.

On 18 September 2018 (post period end), the Company received notice that ENVIA filed the required paperwork to draw down the standby letter of credit provided by the Company in the amount of £605,000.