News release

Velocys plc

("Velocys" or the "Company")

21 September 2023

Interim results for the six months ended 30 June 2023

Significant Progress in Commercialisation Strategy

Velocys plc (VLS. L), the sustainable fuels technology company, announces its interim results for the six months ended 30 June 2023.

The Company has continued to focus on the activities which have the greatest potential to drive near-term market uptake for its technology, through continued development of the US and UK reference projects and building the business development pipeline. The UK reference project (Altalto Immingham) achieved an important milestone, commencing the detailed Front End Engineering and Design phase ("FEED"), a process which delivers the required cost accuracy levels required for potential investors to commit funds for construction. Both Altalto Immingham and the US reference project (Bayou Fuels) are expected to begin generating revenue for the Company during FEED.

As a technology hardware supplier, Velocys has made significant enhancements to its manufacturing capability with the completion of a purpose-built facility in Columbus, Ohio which consolidates the Company's reactor core manufacturing and catalysis operations as the Company increases its scale.

HIGHLIGHTS FOR THE SIX MONTHS ENDED 30 JUNE 2023 (including post period-end)

Organisational scale-up and advancing the business development pipeline

- £6.3 million (before expenses) raised in May 2023 alongside a conditional commitment from strategic investor Carbon Direct Capital in New York for a further £12.5 million in convertible loan notes ("CLN").
- Multiple advanced discussions ongoing with other specialist and strategic investors to invest alongside Carbon Direct Capital in the CLN. Extension of CLN Long Stop Date agreed with Carbon Direct Capital to 31 October 2023 to facilitate ongoing investor due diligence and discussions.
- Completed the relocation of our catalysis activity and reactor core manufacturing to our brand-new 52,500 ft^2 facility in Columbus, Ohio.
- Reactor manufacturing plan aligned to the Altalto and Bayou Fuels project schedules and expected third party client orders. Targeting commencement of commercial reactor production from mid-2024.
- Catalysis capabilities upgraded, providing the testing facilities to support clients to optimise regeneration and catalyst change-out cycles.
- Paid engineering study has been completed for a client in Northern Europe as well as ongoing technical support services to TOYO in Japan to advance the NEDO2 project, which involves the advanced engineering and design phase of a commercial scale biofuel refinery.
- The Company is actively progressing a substantial pipeline of business development opportunities in the Americas, Europe and Asia.
- Velocys has bid for two engineering studies for European clients which, if selected, would be expected to lead to reactor orders in 2024.
- Supported a European client's grant application which, if successful, would result in a paid engineering study beginning in Q4 2023.
- Four full scale, catalyst charged Velocys FT reactors in inventory, acquired from a previous customer, available for new customers.
- Relocated the engineering team in Houston to the "Houston Energy Corridor", placing the team amongst some of the largest energy and energy transition companies in the US.

Project Funding Update

- Project development funding activities are underway for both Altalto Immingham and Bayou Fuels led by a top three global investment bank to raise FEED funding for the Bayou Project and the balance of matched FEED funding for the Altalto Immingham project alongside the £27m Advanced Fuels Fund grant awarded in December 2022.
- Third party technical and commercial reports completed to support investor due diligence, supporting the project technology line up and identifying the Company's two reference projects as some of the most advanced 2nd generation SAF projects globally (second generation excludes biofuels produced from plants which could be used as food or animal feed).
- Receipt of commitments for Project funding are targeted by the end of 2023.

Bayou Fuels Project, Natchez, Mississippi

- Validated the reasonableness and accuracy of the life cycle assessment ("LCA") results from previous internal analysis by hiring a 3rd party consulting company, EcoEngineers, to perform an LCA which showed the project facility will produce SAF with a deeply negative Carbon Intensity (CI) score of –389 g CO_2ei/MJ which will provide the project's airline customers with >500% carbon savings relative to existing fossil benchmark. This translates into 1.3m MT of avoided CO_2 per year at design capacity, equivalent to approximately 1.1 million round trip economy passenger flights between San Francisco and London.
- Bechtel, our engineering partner, successfully completed the final pre-FEED engineering study for the biomass power island and the post-combustion carbon capture facility. This study confirmed the overall design, validated that the site could meet the essential requirements of the design, and completed a preliminary design that is consistent with the deeply negative carbon intensity score.
- Extended the site option agreement for the project facility in Natchez, Mississippi subject to ongoing discussion in relation to required site-works.
- Completed a preliminary environmental review of the proposed biomass power plant site and confirmed that the site does not have any material clean-up requirements.
- Extended milestone dates in the existing SAF offtake agreement with Southwest Airlines to reflect the previously announced revised project schedule of FEED commencement in 2024.
- Our CO_2 transport and storage partner, 1Point Five Sequestration, a subsidiary of Oxy Low Carbon Ventures, confirmed the suitability of the Natchez site for large scale Carbon Capture Storage ("CCS") following a geotechnical survey.
- Secured $300K of grant funding from the United States Department of Agriculture ("USDA") Federal Forestry Service requiring matched funding, to support advancing early works that will support preparations for FEED.

Altalto Waste to SAF Project in Immingham, NE Lincolnshire

- FEED, the final stage of engineering prior to a Final Investment Decision, is advancing as planned, led by Bechtel in London and largely funded to date by the Advanced Fuels Fund ("AFF") grant from the Department for Transport. All AFF grant milestones have been achieved to date.
- Licence and engineering services agreements have been concluded with key technology licensors including TOPSOE, Air Liquide and TRI to support the FEED phase.
- Technology Licence Agreement with Velocys to be finalised in Q4 2023, with first instalment of fees flowing to Velocys following the project funding completion.
- An archaeological survey has been completed and sign-off for the Immingham site secured.
- Construction of initial site access road complete in line with planning consent obligations.
- The second UK Government Consultation on a SAF mandate and long-term price stability mechanism has concluded, pending final HMG decisions on exact levels of mandated buy-out price and long term avoided carbon price.
- The UK Government more recently announced its commitment to implement a long-term revenue certainty scheme for UK SAF projects to enable project financing on commercial terms. The DfT will launch a consultation on the design and delivery of the Scheme, which should attract further investment into the UK SAF industry.

Financial highlights

- Revenue of £61k (HY2022: £48k) from engineering services.
- Grant income recognised of £8.7m (HY2022: £1.5m).
- Operating loss of £8.5m (HY2022: £6.7m) driven by increased activity reflecting the Altalto project entering FEED, scale up of manufacturing activity and project funding activities.

- Net loss before tax of £9.8m (HY2022: £5.7m), including £0.8m of unrealised FX losses due to GBP: US dollar re-translation effects (2022: £1.3m gain).
- Net assets at 30 June 2023 of £13.9m (31 December 2022: £16.7m).
- Cash at 30 June 2023 of £9.0m (31 December 2022: £13.4m).
- Net cash outflow for the six months to 30 June 2023 of £4.3m (HY2022: £6.8m).
- Fundraise of £6.3m (before expenses) in May 2023.

OUTLOOK

- Current cash balance of £6m provides working capital runway to approximately the year end based on current work plans.
- Completion of the conditional CLN funding led by Carbon Direct Capital will significantly extend the working capital runway and provide growth capital for the Company's commercial and engineering scale-up and initial commissioning of our Columbus, Ohio reactor manufacturing facility as well as continuing to fund the key value inflection points in relation to the Bayou Fuels and Altalto Immingham reference projects.
- Continuing to progress Altalto Immingham FEED: targeting all AFF milestones to be met in November and the conclusion of a Technology License Agreement between Velocys and the Altalto project by year end, providing revenue for the Company in H1 2024.
- The development capital private fundraise for both the Altalto and Bayou fuels projects is underway and investment commitments are targeted for the end of the year.
- Following the development capital raise, Bayou Fuels FEED will be commenced, generating license and engineering service fees for the Company.
- Continuing to build and advance the business development pipeline with a target of moving at least two prospects to client status by year end.
- Overall, financial results for the full year are expected to trend in line with results reported for HY1 with an increase in revenue expected to be seen in 2024 following completion of the project funding and as the pipeline crystallises.

Henrik Wareborn, CEO of Velocys, said:

"It has been an exceptionally busy period for Velocys, during which we have deployed the proceeds of our May fundraise to make significant progress in the development of our two reference projects, Bayou Fuels and Altalto, and build and nurture our substantial commercial pipeline.

Progress has been made in both Company and Project finance activities with numerous discussions underway with both strategic and specialist investors which has confirmed the significant interest in SAF. We continue to work closely with Carbon Direct Capital and are pleased to have agreed an extension to the CLN long stop date to 31 October to facilitate ongoing co-investor discussions. Our transition to full commercialisation continues apace, with our reactor manufacturing facility in Columbus Ohio now targeting commercial production from mid-2024. We are also advancing our pipeline of engineering studies and are working productively on the third-party commercial scale biofuel refinery project in Japan.

Velocys' sustainable aviation fuel technology is immediately deployable to deliver advanced SAF solutions for standardizing aviation, traditionally one of the most difficult sectors to standardize. The United States, the European Union and the United Kingdom have all proposed or initiated regulatory programmes that incentivise SAF adoption. This provides a positive environment for the adoption of SAF technologies."

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

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Notes to Editors

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

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

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

Financial Review

Overview

During the six months to 30 June 2023, the Company completed its investment in a new Technical Centre in Columbus, Ohio and the 15-year lease became effective. The FEED phase for the Altalto project in the UK, supported by the £27million Advanced Fuels Fund grant, commenced and is well underway with detailed engineering work being undertaken with Bechtel and the integrated licensors who provide other technology elements to the project. The Company has also progressed the Bayou Fuels reference project with the completion of pre-FEED engineering and has been preparing to raise the development capital required to enable the completion of the FEED phase.

The Company raised £6.3m (before expenses) in an equity fundraise comprising a placing, retail offer and open offer of new ordinary shares in May 2023. Additionally strategic investor, Carbon Direct Capital, has conditionally agreed to subscribe for a minimum of $15 million (approximately £12.5 million) of convertible loan notes subject to, inter alia, the Company raising or having received legally binding commitments in respect of minimum funding of $40 million in aggregate (including the funds raised in May 2023 and Carbon Direct Capital's commitment). The Company has been exceptionally busy since the May 2023 placing with numerous investors undertaking due diligence in relation to the convertible loan notes and separately preparing for the project funding activities which are being led by a top three global investment bank. The CLN Long Stop Date of 30 September has been extended to 31 October to facilitate ongoing investor due diligence and discussions.

Revenues

The Company recorded revenues of £61,000 in half-year 2023 (HY2022: £48,000) in respect of engineering consultancy services provided to third party customer projects under development.

Operating expenses

Total operating expenses, including reference project development costs for Altalto and Bayou Fuels, for the six months ended 30 June 2023 were £17.2m (HY2022: £8.4m). The significant increase is mainly attributed to Altalto commencing the FEED phase at the start of the year. £8.7m of grant income has been recognised in respect of the Altalto project and e-Alto (an e-fuels project). The Bayou Fuels development costs have been 100% funded by Velocys whilst third party project funding to take the project into FEED is underway.

The key components of operating expenses, as set out in note 5, comprise project engineering, licensor fees and consultancy costs of £9.5m (2022: £1.8m) and employee benefit costs of £4.5m (HY2022: £4.0m). Depreciation and amortisation were level at £0.6m (HY2022: £0.6m) and other corporate running costs were £2.6m (HY2022: £2.0m) which included costs for the relocation activities underway in Columbus.

Operating result

The operating loss for the six months to 30 June 2023 was £8.5m (HY2022: £6.7m).

Loss before income tax

The loss before income tax for the six months to 30 June 2023 was £9.8m (HY2022: £5.7m). The Company recorded unrealised foreign exchange losses on intra-group loans resulting from exchange movements in the US dollar and pounds sterling of £0.8m for the six months to 30 June 2023 (HY2022: £1.3m gain) which accounts for £2.1m of the increased loss before income tax.

Dividends

The directors do not recommend an interim dividend for the six months to 30 June 2023 (HY2022: £nil).

Net assets and cash

The net assets of the Company were £13.9m at 30 June 2023 (31 December 2022: £16.7m). The decrease was principally the result of the £4.4m decrease in cash and cash equivalents as a result of funding the Company's capital expenditure, development projects and ongoing operating activities offset by the net proceeds from the May 2023 fundraise of £5.2m.

The Company had a net cash outflow, of £4.3m in the six months to 30 June 2023 (HY2022: £6.8m) comprising expenditure on operating activities of £6.9m (HY2022: £8.6m) and investing activities of £2.6m (HY2022: £7.8m) offset by an inflow from financing activities of £5.2m (HY2022: £9.6m).

Going concern and future funding

These unaudited interim condensed consolidated financial statements have been prepared on a going-concern basis, which assumes the Company will have sufficient funds available to enable it to trade for not less than twelve months from the date of announcing these unaudited interim condensed consolidated financial statements.

At the date of signing of these unaudited interim condensed consolidated financial statements, the Company has cash reserves of £6m including restricted cash of £0.2m which is sufficient to operate the Company to approximately the year end based on current work plans. The nature of the Company's strategy means that the precise timing of milestones and funds generated during the early years of development projects are difficult to predict. The directors have prepared financial forecasts to estimate the likely cash requirements of the Company over the next twelve months from the date of announcing these unaudited interim condensed consolidated financial statements. As noted above these forecasts show that the Company will require additional external funding before the end of the year to be able to continue as a going concern.

The directors have assessed that there is a reasonable prospect that the funding required for the Company to continue as a going concern will be secured within the short term and therefore have prepared the unaudited interim condensed consolidated financial statements on a going concern basis. As set out in the Company's Annual Report and Accounts 2022, the Company has agreed to the issuance of convertible loan notes ("CLN") to Carbon Direct Capital, who has provided a commitment to proceed with $15 million provided the Company is able to raise a total of $40m (approximately £32m). Following proceeds of £6.3m from an equity fundraise in May 2023, this leaves a balance of approximately £14 million. Multiple advanced discussions are ongoing with other specialist and strategic investors to invest alongside Carbon Direct Capital in the CLN. The commitment period agreed with Carbon Direct Capital for completion of the CLN investment has been extended to 31 October 2023 to facilitate ongoing investor due diligence and discussions. Reflecting the extension of the convertible loan note long stop date, the Company is also exploring working capital facilities.

Whilst numerous discussions remain ongoing in relation to the balance of funding necessary to meet the CLN conditionality, as at the date of announcing these unaudited interim condensed consolidated financial statements no additional funding has been committed.

Should additional funding not be secured within the short term, the Company would not be a going concern. As such, these conditions indicate the existence of a material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern. The Company continues to monitor its cash requirements carefully, particularly the working capital requirements of the AFF grant. The Company remains focused on securing additional funding alongside Carbon Direct Capital to enable the Company to pursue its growth plans and take advantage of the significant progress made with both reference projects, the increasing momentum in relation to government policy and the increasing interest in SAF projects from a number of stakeholders.

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

Principal risks and uncertainties

The Company has continued to maintain its framework and processes to identify, assess and manage risks. The principal risks and uncertainties that could potentially have a material impact on the Company's long-term performance and delivery of strategy are detailed on pages 26 to 29 of the Annual Report and Accounts 2022.

The risks associated with access to capital remain a key consideration which is kept under review, and particularly relevant given the challenging global economic and capital market conditions experienced in the first six months of the year. However, the Company assesses that the availability of funds for clean energy projects and technology solutions remains positive for the medium to long term and will enable it to secure the external funding required before the Company is generating sufficient working capital from its commercial operations.

Condensed consolidated statement of profit or loss

	Note	**Six months ended 30 June 2023 £'000**	Six months ended 30 June 2022 [1] £'000
Revenue	4	61	48
Cost of sales		(13)	(33)
Gross profit		48	15
Operating expenses	5	(17,184)	(8,366)
Other income	6	8,684	1,609
Operating loss		(8,452)	(6,742)
Finance income	7	27	1,312
Finance costs	8	(1,390)	(287)
Loss before income tax		(9,815)	(5,717)
Income tax credit	9	583	576
Loss for the period attributable to the owners of Velocys plc		(9,232)	(5,141)
Loss per share attributable to the owners of Velocys plc		**Pence**	Pence
Basic and diluted loss per share	10	(0.65)	(0.37)

The above condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

[1] The results for the six months ended 30 June 2022 have been restated to be consistent with the audited financial statements for the year ending 31 December 2022. Foreign exchange gains of £1,276,000 have been re-categorised from Operating expenses to Finance income (see note 7). There is no change to the net loss for the period.

Condensed consolidated statement of comprehensive income

	6 months ended 30 June 2023 £'000	6 months ended 30 June 2022 £'000
Loss for the period	(9,232)	(5,141)
Other comprehensive income/(expense)		
Items that may be reclassified to the income statement in subsequent periods		
Foreign currency translation differences	558	(512)
Total comprehensive income/(expense) for the period attributable to the owners of Velocys plc	(8,674)	(5,653)

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Condensed consolidated balance sheet

	Note	**30 June 2023 £’000**	31 December 2022 £’000
ASSETS			
Non-current assets			
Property, plant and equipment	11	12,949	11,004
Right-of-use assets		4,781	399
Intangible assets	12	1,641	1,524
Total non-current assets		19,371	12,927
Current assets			
Inventories		871	855
Trade and other receivables		6,697	2,586
Current income tax asset		1,345	976
Cash and cash equivalents	14	9,023	13,383
Total current assets		17,936	17,800
Total assets		37,307	30,727
LIABILITIES			
Non-current liabilities			
Provisions		(165)	(13)
Lease liabilities		(4,114)	(51)
Other financial liabilities	15	(10,035)	(9,719)
Other liabilities		(157)	(165)
Total non-current liabilities		(14,471)	(9,948)
Current liabilities			
Provisions		(214)	(216)
Trade and other payables		(6,165)	(2,596)
Lease liabilities		(549)	(375)
Other financial liabilities	15	(376)	(376)
Other liabilities		(70)	(322)
Deferred revenue		(1,612)	(206)
Total current liabilities		(8,986)	(4,091)
Total liabilities		(23,457)	(14,039)
Net assets		13,850	16,688
EQUITY			
Called up share capital	17	16,518	13,977
Share premium account	17	224,250	221,141
Merger reserve		369	369
Share-based payments reserve		3,323	3,137
Foreign exchange reserve		3,297	2,739
Accumulated losses		(233,907)	(224,675)
Total equity		13,850	16,688

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

Condensed consolidated statement of changes in equity

	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 2023	13,977	221,141	369	3,137	2,739	(224,675)	16,688
Loss for the period	–	–	–	–	–	(9,232)	(9,232)
Other comprehensive income							
Foreign currency translation differences	–	–	–	–	558	–	558
Total comprehensive expense	–	–	–	–	558	(9,232)	(8,674)
Transactions with owners							
Share-based payment – value of employee services	–	–	–	186	–	–	186
Net proceeds from share issues	2,541	3,109	–	–	–	–	5,650
Total transactions with owners	2,541	3,109	–	186	–	–	5,836
Balance at 30 June 2023	16,518	224,250	369	3,323	3,297	(233,907)	13,850

	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 2022	13,936	221,059	369	2,638	3,151	(211,476)	29,677
Loss for the period	–	–	–	–	–	(5,141)	(5,141)
Other comprehensive expense							
Foreign currency translation differences	–	–	–	–	(512)	–	(512)
Total comprehensive expense	–	–	–	–	(512)	(5,141)	(5,653)
Transactions with owners							
Share-based payments – value of employee services	–	–	–	264	–	–	264
Proceeds from options exercised	26	52	–	–	–	–	78
Total transactions with owners	26	52	–	264	–	–	342
Balance at 30 June 2022	13,962	221,111	369	2,902	2,639	(216,617)	24,366

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed consolidated statement of cash flows

	Note	**6 months ended 30 June 2023 £'000**	6 months ended 30 June 2022 £'000
Cash flows from operating activities			
Cash used in operations		(6,874)	(8,501)
Interest received		27	36
Interest paid		(77)	(142)
Net cash outflow from operating activities		(6,924)	(8,607)
Cash flows from investing activities			
Payments for property, plant and equipment		(2,315)	(7,614)
Payments for intangible assets		(216)	(259)
Proceeds from sale of property, plant and equipment		–	97
Net cash outflow from investing activities		(2,531)	(7,776)
Cash flows from financing activities			
Proceeds received from financing arrangement		–	9,750
Option fees paid under financing arrangement		(200)	–
Proceeds received from issuance of shares		5,650	–
Proceeds received from exercise of share options		–	78
Principal elements of lease payments		(281)	(264)
Net cash inflow from financing activities		5,169	9,564
Net decrease in cash and cash equivalents		(4,286)	(6,819)
Cash and cash equivalents at beginning of the half-year		13,383	25,506
Exchange movements on cash and cash equivalents		(74)	103
Cash and cash equivalents at end of the half-year	14	9,023	18,790

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the condensed consolidated interim financial statements

1. Significant changes in the current reporting period

The Company has undertaken a detailed going concern assessment, reviewing its current and projected financial performance and position, the conclusion of which is presented in note 2 below.

The Company has continued to experience an increase in inflationary pressures on operating expenses and regularly updates its projections to take this into account.

The Company has also reviewed its exposure to climate change and concluded that this did not have a significant impact on the financial performance and/or position of the Company for the period and as at 30 June 2023, respectively.

The financial position and performance of the Company was particularly affected by the following events and transactions during the six months to 30 June 2023:

- The Company raised £5.7m (after expenses) in a fundraise comprising a placing, retail offer and open offer of ordinary shares in May 2023.
- The 15 year lease for the new technical centre in Ohio became effective in May 2023, with an addition of £4.5m to right-of-use assets and a corresponding increase in lease liabilities at 30 June 2023.
- The Company incurred a significant increase in operating expenses as a result of the Altalto project commencing the FEED stage of development. However, a large proportion of these costs are recoverable under the Advanced Fuels Fund grant.

2. Going concern

These unaudited interim condensed consolidated financial statements have been prepared on a going-concern basis, which assumes the Company will have sufficient funds available to enable it to trade for not less than twelve months from the date of announcing these unaudited interim condensed consolidated financial statements.

At the date of signing of these unaudited interim condensed consolidated financial statements, the Company has cash reserves of £6m including restricted cash of £0.2m which is sufficient to operate the Company to approximately the year end based on currrent work plans. The nature of the Company's strategy means that the precise timing of milestones and funds generated during the early years of development projects are difficult to predict. The directors have prepared financial forecasts to estimate the likely cash requirements of the Company over the next twelve months from the date of announcing these unaudited interim condensed consolidated financial statements. As noted above these forecasts show that the Company will require additional external funding before the end of the year to be able to continue as a going concern.

The directors have assessed that there is a reasonable prospect that the funding required for the Company to continue as a going concern will be secured within the short term and therefore have prepared the unaudited interim condensed consolidated financial statements on a going concern basis. As set out in the Company's Annual Report and Accounts 2022, the Company has agreed to the issuance of convertible loan notes ("CLN") to Carbon Direct Capital, who has provided a commitment to proceed with $15 million provided the Company is able to raise a total of $40m (approximately £32m). Following proceeds of £6.3m from an equity fundraise in May 2023, this leaves a balance of approximately £14 million. Multiple advanced discussions are ongoing with other specialist and strategic investors to invest alongside Carbon Direct Capital in the CLN. The commitment period agreed with Carbon Direct Capital for completion of the CLN investment has been extended to 31 October 2023 to facilitate ongoing investor due diligence and discussions. Reflecting the extension of the CLN long stop date, the Company is also exploring working capital facilities.

Whilst numerous discussions remain ongoing in relation to the balance of funding necessary to meet the CLN conditionality, as at the date of announcing these unaudited interim condensed consolidated financial statements no additional funding has been committed.

Should additional funding not be secured within the short term, the Company would not be a going concern. As such, these conditions indicate the existence of a material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern. The Company continues to monitor its cash requirements carefully, particularly the working capital requirements of the AFF grant. The Company remains focused on securing additional funding alongside Carbon Direct Capital to enable the Company to pursue its growth plans and take advantage of the significant progress made with both reference projects, the increasing momentum in relation to government policy and the increasing interest in SAF projects from a number of stakeholders.

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

3. Critical estimates and judgements

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results might differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2022.

4. Segment and revenue information

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

Revenue is allocated to geographic area based on the country in which the customer is located.

	6 months ended 30 June 2023 £'000	6 months ended 30 June 2022 £'000
Asia Pacific	61	48
Total	61	48

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

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

In the six months ended 30 June 2023 and 2022, the revenue was in respect of engineering services which was recognised as services were performed during the period.

5. Operating expenses

	6 months ended 30 June 2023 £'000	6 months ended 30 June 2022 £'000
Employee benefit expense	4,516	4,008
Project engineering, licensor fees and consultancy costs	9,515	1,767
Facilities, IT and administrative costs	969	448
Patents and IP related costs	22	175

Insurance	246	333
Legal and professional services	1,103	920
Travel	188	160
Depreciation of property, plant and equipment	257	214
Depreciation of right-of-use asset	293	233
Amortisation of intangible assets	75	108
Total	17,184	8,366

6. Other income

In the six months ended 30 June 2023, income from government grants was in respect of a grant awarded to the Altalto project under the UK government's Advanced Fuels Fund. In the previous period, the grant income was from the Green Fuels Green Skies competition, the work under which was completed in June 2022.

	6 months ended 30 June 2023 £'000	6 months ended 30 June 2022 £'000
Income from government grants	8,673	1,512
Profit on sale of fixed assets	11	97
Total	8,684	1,609

7. Finance income

	6 months ended 30 June 2023 £'000	6 months ended 30 June 2022 £'000
Interest income on bank deposits	27	24
Interest income on customer late payments	–	12
Foreign exchange gains	–	1,276
Total	27	1,312

8. Finance costs

	6 months ended 30 June 2023 £'000	6 months ended 30 June 2022 £'000
Interest on lease liabilities	62	42
Interest on other financial liabilities	531	245
Foreign exchange losses	797	–
Total	1,390	287

9. Income tax credit

Due to the losses incurred in the period, there is no charge to corporate tax. The Company recognised £583,000 for estimated R&D tax credits for the six months ended 30 June 2023 (HY1 2022: £576,000). The estimate is prepared on an accruals basis, and is based on an assessment of the Company's projects, to determine which ones qualify under HMRC rules, and to estimate the level of allowable expenses within each, based on the nature of the costs.

10. Loss per share

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

	6 months ended 30 June 2023	6 months ended 30 June 2022
Loss attributable to owners of Velocys plc (£'000s)	(9,232)	(5,141)
Weighted average number of ordinary shares in issue ('000)	1,428,560	1,394,487
Basic and diluted loss per share (pence)	(0.65)	(0.37)

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.

11. Property, plant and equipment

There has been no change in the types of property, plant and equipment held in the six months ended 30 June 2023. Further details are disclosed the Company's Annual Report and Accounts 2022, pages 80 to 81.

	Assets under construction	Land	Plant and machinery	Total
At 31 December 2022	£'000	£'000	£'000	£'000
Cost or fair value	46	9,820	10,673	20,539
Accumulated depreciation and impairment	–	–	(9,535)	(9,535)
Net book amount	46	9,820	1,138	11,004
6 months ended 30 June 2023				
Opening net book amount	46	9,820	1,138	11,004
Exchange differences	(11)	–	(102)	(113)
Additions	445	–	1,870	2,315
Depreciation charge	–	–	(257)	(257)
Closing net book amount	480	9,820	2,649	12,949
At 30 June 2023				
Cost or fair value	480	9,820	11,986	22,286
Accumulated depreciation and impairment	–	–	(9,337)	(9,337)
Net book amount	480	9,820	2,649	12,949

12. Intangible assets

There has been no change in the types of intangible assets held in the six months ended 30 June 2023. Further details are disclosed the Company's Annual Report and Accounts 2022 on pages 83 to 85.

Management did not identify any significant changes to the indicators of impairment or changes in circumstances that could cause the Company to impair or consider reversing prior period impairments of its intangible assets during the six months ended 30 June 2023.

	Goodwill	In-process technology	Patents, licence and trademarks	Software	Total
At 31 December 2022	£'000	£'000	£'000	£'000	£'000
Cost or fair value	7,398	23,681	2,612	119	33,810
Accumulated amortisation and impairment	(7,398)	(23,681)	(1,111)	(96)	(32,286)
Net book amount	–	–	1,501	23	1,524
6 months ended 30 June 2023					
Opening net book amount	–	–	1,501	23	1,524
Exchange differences	–	–	(24)	–	(24)
Additions	–	–	216	–	216
Amortisation charge	–	–	(73)	(2)	(75)
Closing net book amount	–	–	1,620	21	1,641
At 30 June 2023					
Cost or fair value	7,398	23,681	2,632	119	33,830
Accumulated amortisation and impairment	(7,398)	(23,681)	(1,012)	(98)	(32,189)
Net book amount	–	–	1,620	21	1,641

13. Commitments and contingencies

(a) Commitments

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

The commitments set out below relate to the Company's investment in the new manufacturing facility in Ohio. The Company will make a final contribution of £161,000 towards the construction cost of the new leasehold building upon completion of all agreed works, which it expects to pay in Q3 2023.

The Company has also made capital commitments for long lead-time equipment required for the manufacturing line and upgrade of the catalysis laboratories.

Therefore, total capital expenditure contracted but not yet recognised was as follows:

	30 June 2023 £'000	31 December 2022 £'000

Contribution to new building	161	879
Manufacturing equipment	925	1,866
Catalysis laboratory equipment	99	221
Total	1,185	2,966

(b) Contingent liabilities

The Company has no contingent liabilities.

14. Cash and cash equivalents

	30 June 2023 £'000	31 December 2022 £'000
Unrestricted cash	8,825	12,428
Restricted cash	198	955
Total	9,023	13,383

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

15. 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 estimates and judgements

The Company has determined that the cash consideration of £9,750,000 received from Foresight Group LLP ("Foresight") for the sale of 100% of Rula Developments (Immingham) Ltd ("RDIL") ordinary shares in March 2022, which enabled Velocys to settle deferred consideration due from the original acquisition of RDIL in December 2021, 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 Velocys 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 is £11,250,000. If the option is exercised after the 2nd anniversary date and before the expiry date, the purchase price is £11,750,000. Quarterly option fees of £100,000 are due throughout the option period. Because Velocys maintains significant control over RDIL's asset, namely the Immingham site where the Altalto development is planned, 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.

	£'000
Financial liabilities at amortised cost:	
As at 1 January 2022	–
Initial fair value recognised	9,750

Interest expense	745
Payments made	(400)
As at 31 December 2022	10,095
Interest expense	516
Payments made	(200)
As at 30 June 2023	10,411

	30 June 2023 £'000	31 December 2022 £'000
Current	376	376
Non-current	10,035	9,719
Total	10,411	10,095

16. Financial instruments

Details of the classification of financial assets and financial liabilities following the guidance in IFRS 9 and the Company's exposure to various risks associated with the financial instruments is disclosed on pages 90 to 93 of the Company's Annual Report and Accounts 2022.

The Company's main financial asset at 30 June 2023 and 31 December 2022 is cash and cash equivalents which comprise bank current accounts and short-term cash deposits.

The detail of the Company's financial instruments at 30 June 2023 and 31 December 2022 by nature and classification for measurement purposes is as follows:

At 30 June 2023	Financial assets			
	Amortised cost	Fair value through OCI	Fair value through income statement	Total carrying amount
	£'000	£'000	£'000	£'000
Trade and other receivables excluding non-financial assets	–	–	–	–
Cash and cash equivalents	9,023	–	–	9,023
Total	9,023	–	–	9,023

At 31 December 2022	Financial assets			
	Amortised cost	Fair value through OCI	Fair value through income statement	Total carrying amount
	£'000	£'000	£'000	£'000
Trade and other receivables excluding non-financial assets	–	–	–	–

Cash and cash equivalents	13,383	–	–	13,383
Total	13,383	–	–	13,383

At 30 June 2023	Financial liabilities			
	Amortised cost	Fair value through OCI	Fair value through income statement	Total carrying amount
	£'000	£'000	£'000	£'000
Trade and other payables excluding non-financial liabilities	2,801	–	–	2,801
Accruals	3,148	–	–	3,148
Lease liabilities	4,663	–	–	4,663
Other financial liabilities	10,411	–	–	10,411
Other liabilities	2,055	–	–	2,055
Total	23,078	–	–	23,078

At 31 December 2022	Financial liabilities			
	Amortised cost	Fair value through OCI	Fair value through income statement	Total carrying amount
	£'000	£'000	£'000	£'000
Trade and other payables excluding non-financial liabilities	289	–	–	289
Accruals	2,230	–	–	2,230
Lease liabilities	426	–	–	426
Other financial liabilities	10,095	–	–	10,095
Other liabilities	487	–	–	487
Total	13,527	–	–	13,527

The contractual maturity of financial liabilities is as follows:

	30 June 2023 £'000	31 December 2022 £'000
Within one year	8,772	3,592
Within two to five years	14,306	9,935
Total	23,078	13,527

17. Equity securities issued

	Number of shares (thousands)	Ordinary shares £'000	Share Premium £'000

At 1 January 2023	1,397,671	13,977	221,141
Proceeds from share issues	254,128	2,541	3,821
Expenses of share issues	–	–	(712)
At 30 June 2023	1,651,799	16,518	224,250

	Number of shares (thousands)	Ordinary shares £'000	Share Premium £'000
At 1 January 2022	1,393,571	13,936	221,059
Proceeds from options exercised	2,600	26	52
At 30 June 2022	1,396,171	13,962	221,111

18. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

In the six months ended 30 June 2023, Lansdowne Partners (UK) LLP, a substantial shareholder of the Company has subscribed for a total of 71,405,393 placing shares at the placing price of 2.5 pence 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. 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 per share.

There were no related party transactions in the six months ended 30 June 2022.

19. Events occurring after the reporting period

There were no events occurring after the reporting period end that have an impact on the financial results.

20. General information and basis of preparation of half-year report

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

These unaudited interim condensed consolidated financial statements were approved for issue on 20 September 2023.

These unaudited interim condensed consolidated financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2022 were approved by the board of directors on 24 May 2023 and delivered to the Registrar of Companies. The report of the auditors on these accounts was unqualified and did not contain a statement under section 498 of the Companies Act 2006. However, the report of the auditors did contain an emphasis of matter paragraph in respect of going concern.

Basis of preparation

This unaudited interim condensed consolidated financial report for the half-year reporting period ended 30 June 2023 has been prepared in accordance with UK-adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosures Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2022, which has been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006, and any public announcements made by Velocys plc during the interim reporting period.

New and amended standards adopted by the Company
A number of new or amended standards and interpretations became applicable for the current reporting period. The Company did not change its accounting policies or make retrospective adjustments as a result of adopting these standards.

Statement of directors' responsibilities

The directors confirm that these unaudited interim condensed consolidated financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and that the interim management report includes a fair review of information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of the important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of Velocys plc are listed in the Velocys plc annual report for 31 December 2022 and on the Velocys plc website: www.velocys.com.

By order of the board

Henrik Wareborn
20 September 2023
Chief Executive Officer