VELOCYS

ANNUAL REPORT AND ACCOUNTS 2019

www.velocys.com

About us

Velocys is an international UK-based sustainable fuels technology company. Velocys designed, developed and now licenses proprietary Fischer-Tropsch technology for the generation of clean, low carbon, synthetic drop-in aviation and road transport fuel from waste biomass in plants currently under development and construction.

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

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Highlights

Fund raise of £7m (before expenses) in July 2019.

Altalto Immingham Project strategic partners, British Airways and Shell, commitment of £2.8 million in July 2019.

Planning application for a commercial waste to fuel plant submitted to North East Lincolnshire County Council for the Altalto Immingham project.

Revenue of £0.3m (2018: £0.7m).

Operating loss of £9.6m, before exceptional items including a credit of £0.1m related to impairments (2018: loss of £18.6m before exceptional items of £10.1m).

Administrative expenses before exceptional items reduced significantly to £9.9m (£9.8m after exceptional items) compared to 2018 £19.1m (£29.1m after exceptional items).

Cash at period end £4.8m (31 December 2018: £7.0m).

Contracted, manufactured and now delivered Fischer-Tropsch (FT) reactors and catalyst to Toyo Engineering Corporation (Toyo) for use in a biomass-to-jet fuel demonstration facility in Nagoya, Japan.

Bayou Fuels project set to produce negative emission fuels after signing CCUS agreement with Oxy Low Carbon Ventures.

Amended Red Rock Biofuels licensing contract in February 2019 with delivery of the first reactor in Q4 2019 and completion of delivery of the other 3 reactors in H1 2020.

Appointed Worley (EPC) to manage delivery of our technology globally.

Velocys classified as a Green Economy Issuer by the London Stock Exchange.

Licensors on-board include: TRI, Arvos, Air Liquide, Linde and Haldor Topsoe A/S.

International Leadership Team

Henrik Wareborn
Chief Executive Officer

Andrew Morris
Chief Financial Officer

Brian Cody
VP Manufacturing & Technology Licensing

Ivan Greager
VP Engineering

Neville Hargreaves
VP Waste to Fuels

Roger Harris
VP Operations

Jeff McDaniel
VP New Projects

Heinz Robota
VP Technology

Lak Siriwardene
Head of Communications & Sustainability

Our mission is to deliver the next generation of sustainable fuels to decarbonise aviation and heavy-duty transport. We have designed, developed and licensed patented proprietary Fischer-Tropsch technology, which enables the production of sustainable fuels from a variety of waste materials. It is the turn-key solution to fuel producers that significantly reduce both greenhouse gas emissions and key exhaust pollutants, helping to meet net zero targets.

Global engagement

BRITISH AIRWAYS
TOYO ENGINEERING
OXY LOW CARBON VENTURES
HALDOR TOPSØE
TRI INSIDE
ARVOS GROUP
Linde
Worley energy | chemicals | resources

Chairman's statement

In 2019 Velocys completed its transition from its historical base as a research focused organisation to one of being capable of delivering its micro-channel Fischer-Tropsch ("FT") technology for incorporation into commercial scale waste to sustainable fuel plants. This has been a significant achievement and has established Velocys as a credible technology provider to sustainable fuels producers, enabling a major increase in the production of both sustainable jet fuel for the global aviation industry and low carbon diesel for the automotive industry.

The demand for sustainable jet fuel could not be more obvious. Velocys is in a unique position to offer a de-risked, scalable and executable solution to convert widely available waste feedstocks into sustainable jet fuel with a minimal carbon intensity both in the USA and in the UK.

Market and Strategy

Our hybrid capital-light business model centres around (1) securing the adoption of our unique technology solution into the two reference projects being the Altalto Immingham Project in the UK and the Mississippi Biorefinery Project in the USA and (2) also supply and service third party projects where our technology solution has been selected for the core processing units. We will be intimately involved in both reference projects from inception to financial close and we have brought in strategic partners such as British Airways and Shell into the Altalto Immingham Project.

We are negotiating with US parties to secure the FEED funding of the Mississippi Biorefinery Project. This ensures our technology is deployed in our chosen market of waste-to-liquid fuels, whilst at the same time we have developed an integrated technology package that can be deployed for sustainable feedstock to liquid fuels production for new customers around the world. We are supplying our FT technology to our current commercial clients, Red Rock Biofuels and Toyo Engineering. They are both making good progress on their respective biomass to fuels projects.

In supporting the aviation industry in its de-carbonisation efforts, Velocys is able to provide two complementary commercial solutions:

- Firstly, as the developer of waste-to-sustainable fuel plants, as evidenced by our two current projects; the Altalto Immingham Biorefinery Project to be constructed at Immingham in the UK, and our Mississippi Biorefinery to be constructed at Natchez in the USA. The Altalto project has secured Planning Permission in May 2020. This will be followed by further technical work, supported by Shell and British Airways, to further de-risk the project and enable an investment decision to be taken in 2022. Development work in 2019 on our Mississippi Biorefinery Project included securing an agreement with a subsidiary of Occidental to provide carbon dioxide sequestration facilities and development of a solar power solution. The inclusion of these two opportunities results in both significant reductions in capex and a facility that has the ability to produce sustainable jet fuel with a negative carbon intensity.
- Secondly, as the owner of patented FT micro-channel technology for the conversion of synthetic gas to liquids we are able to provide commercial scale reactors to third party developers of waste-to-sustainable fuel plants as evidenced by the use of Velocys reactors at two facilities in the US; our Oklahoma plant at which we demonstrated our reactor technology at commercial scale in 2017/2018, and also at Red Rock Biofuels, a third party facility that began construction at Lakeview Oregon in 2018 and is due to commence operations in 2021. The first of four reactors were delivered to our Red Rock Biofuels client in 2019. The remaining three have been delivered in the first half of 2020.

Management and Board

Darran Messem and I joined the Velocys Board in January 2019. The Board structure for the majority of 2019 was led by Pierre Jungels as Chairman, with me as Senior Independent Director, and member of the Audit & Risk, Remuneration and Nomination Committees. Mr. Messem Chaired the Remuneration Committee and was member of the Audit & Risk and Nomination Committees. Sandy Shaw continued in her role as Chair of the Audit & Risk Committee and member of the Remuneration Committee. In September 2019, Sandy Shaw resumed her former position as Chair of the Remuneration Committee, and Darran Messem replaced her as Chair of the Audit & Risk Committee.

Further to his notification in the 2018 Annual Report, Dr. Jungels stepped down as Chairman in December 2019, and was succeeded by me. I would like to express sincere and grateful appreciation to Dr. Jungels on behalf of all Velocys' stakeholders for the outstanding contribution he made during his tenure as Chairman, directing the efforts of the organisation from being research based to now being able to offer its technology on a commercial basis to an expanding client base.

Corporate governance

The Directors recognise the value and importance of good corporate governance and are committed to drawing upon best practice and maintaining high standards. Led by the Chairman, the Velocys Board follows the ten principles of corporate governance set out under three headings in the Quoted Companies Alliance Code, see page 20 for additional details.

Fundraising

In July 2019 Velocys raised a total of £7.0m (before expenses) via a firm placing and an open offer. We have received strong support from existing and new institutional investors including new VCT investors, for which we are grateful. All Board Directors participated in this round of funding. This complements the commitments by Shell and British Airways to co-fund the remaining pre-FEED project work to bring the Altalto Immingham Project to the same state of pre-FEED completion as our Mississippi Biorefinery Project. This provided the Company with sufficient funding to deliver its strategy for a year supported by revenues received from technology sales and support services.

In July 2020 the Company successfully raised £21.0m (before expenses) through a Placing, Retail Offer and an Open Offer, with the Open Offer enabling all eligible shareholders as well as new smaller investors to participate. We are delighted with the strength of support shown by both new and existing investors in this fundraising as the issue was significantly oversubscribed. We are particularly pleased to see a number of high-quality institutional investors join our shareholder register.

Outlook

The transformation of Velocys from a research and development focus to a solution provider for the future sustainable fuels industry having been completed, 2020 will further establish Velocys as a significant player in that industry. With the delivery of reactors and catalyst to our customers in 2020 as a provider of technology and equipment to third party sustainable fuel project developers, Velocys will further increase its ability to generate revenues from licensing fees, royalty fees, catalyst sales, equipment supplies, and professional technical services.

The Executive Team will place significant emphasis during 2020 on cementing Velocys' position in the marketplace and securing future opportunities for enhancing revenues from third-party developers.

Technical development work in 2020 will focus on finalising the technical definition of our two reference projects such that they are appropriately positioned in terms of capital requirements and commercial returns to attract the necessary investment support. This technical development work will include concluding Licensor Agreements and the necessary engineering, procurement and construction expertise from our world class engineering contractor, Worley, to finalise the technical definition for both projects.

At the time of writing this Chairman's statement, the majority of the world's population is experiencing some form of lockdown in an effort to control the spread of the COVID-19 Coronavirus. Velocys has taken all necessary measures to protect its staff, both in the UK and the USA, from being exposed to the transmission of this disease, by instituting 100% work from home procedures for all its employees. With the support of our suppliers we have been able to continue the critical work of reactor manufacturing for our client Red Rock Biofuels. This has enabled Velocys to complete the delivery of all the reactors in Q2 2020 as agreed.

We deployed staff to our Japanese client to assist in catalyst loading of the reactor cores that were delivered in Q1 2020. With the support of Worley we have been able to continue to progress the technical development of the Altalto Immingham Project on schedule.

2019 saw the emergence of a powerful voice globally advocating the importance of immediate action to avoid the adverse effects of climate change and the urgent need for governments, industry and individuals to take action. The drive for industrial decarbonisation has strong momentum and will see industry and fuel providers seeking ways of contributing significantly to assist the aviation industry to reduce its carbon emissions. Velocys' technology and business model are ideally placed to accelerate the supply of Sustainable Aviation Fuel.

Philip Holland
Chairman
5 August 2020

CEO's Report

2019 has been a positive year for the Company. The demand is growing for our integrated Fischer-Tropsch technology and associated engineering services for conversion of waste feedstocks to advanced sustainable fuels.

Following the completion in 2018 of the commercial scale and integrated demonstrations of our technology in Oklahoma and North Carolina, we have concentrated our efforts in 2019 on building our capability to deliver our technology at scale to clients. Velocys has transitioned from research, development and demonstration to commercial-scale client delivery. We have delivered all of our reactors and catalyst charges to our clients in Oregon and Japan.

Velocys is committed to seamless delivery to our clients of hardware in the form of reactors and catalyst as well as providing engineering services and commercial solutions during the feasibility and FEED stages. We also provide commissioning and start-up services along with on-going engineering and optimisation support over the lifetime of the technology site license contracts.

None of this would have been possible without the support of our shareholders, new and old, in 2019 along with the hard work, ingenuity and dedication of all our employees.

Market dynamics

There has been a distinct movement in 2019, particularly in the last quarter, in the climate change debate with commercial solutions for sustainable aviation and decarbonised fuels gaining momentum. The need for a solution is now widely covered in mainstream media and Velocys has been recognised broadly as a potential critical provider of such a solution in global media during the year.

Velocys fully supports the Sustainable Aviation ("SA")[1] initiative, which comprises UK aviation partners and takes a collective approach to address the challenge of ensuring a cleaner, quieter and smarter future for the industry. SA has provided a new aviation industry roadmap forecasting that sustainable aviation fuels could meet 32% of aviation fuel demand by 2050. This formed part of a wider announcement by the industry coalition committing to net zero carbon emissions by 2050. The FT technology provided by Velocys will contribute significantly towards reaching these targets. As members of the Carbon Capture and Storage Association[2] we support the development and deployment of CCS worldwide.

Climate change and green energy remain at the top of global agendas with challenging but realistic net zero targets. Established technologies, such as ours, are now in demand in order to reach net-zero targets through the decarbonisation of transport, with aviation and heavy goods transport being two of the most challenging sectors.

Talent retention

A three-year Long-Term Incentive plan ("LTIP") based on equity options with a strike price based on the previous fund raise in July 2019, which was double the share price at the time of the award in December 2019, was implemented for a broad group of employees in December 2019 along with a special equity based award for all employees. No such awards have been made since 2014. Further details can be seen in the Directors' remuneration report and in Note 15 (Share-based incentives).

Commercial success

In 2019 Velocys delivered a number of key commercial developments:

Red Rock Biofuels, Oregon biorefinery

RRB commenced construction during 2018 at Lakeview, Oregon. During 2019 we amended our license contract with RRB, reducing the commitment for reactors from six to four, with an option for RRB to acquire two further reactors before the end of 2020. Manufacturing the reactors and catalyst for this £9.2m order commenced in 2019. During the year we invoiced a further £1.2m upon the delivery of the first reactor and four charges of catalyst. We have £5.6m deferred revenue subject to the completion of the delivery and commissioning of three more reactors, all of which completed manufacturing in the first half of 2020.

Toyo Engineering Corporation, Nagoya, Japan

Toyo placed an order with Velocys in September 2019, worth approximately £0.4 million, to supply an FT site license, reactor and catalyst for a biomass-to-jet fuel demonstration facility which completed construction in March 2020 by a consortium of Japanese companies. This plant is now in operation and is producing liquid fuels.

In addition, Velocys has agreed that it will grant an exclusive right to Toyo for a site license and technical services of the Velocys FT Technology for a future potential commercial plant in Japan with an advance deposit of £3.2 million. The deposit has been paid in a non-refundable tranche of £0.4 million and a further tranche which is potentially refundable and subject to milestones.

Velocys has also been invited to participate in pre-feasibility work for a number of projects around the world of similar scale and scope to our two reference projects.

Technology and Operations

We have scaled-up manufacturing operations to fulfill our recent reactor and catalyst orders from the US and Japan. The FT reactor cores are manufactured in Alabama using highly customised laser welding technology, and then enclosed in a pressure vessel at a separate location. Our proprietary Actocat catalyst is also manufactured in the US under the supervision of Velocys specialists.

1 www.sustainableaviation.co.uk
2 www.ccsassociation.org

Our progress includes new manufacturing equipment being incorporated into the production line of the cores that hold the catalyst and cooling panels of the reactors to scale-up delivery while following a very strict quality assurance programme. We also successfully implemented the on-site high pressure testing of the cores, and the full automation of laser welding of coolant panels.

Commercial demonstration plant: Post-operative analysis of FT reactors

The two full-scale FT reactors from the demonstration plant in Oklahoma, with combined runtime in excess of 6,000 hours have provided invaluable data in our post-operative analysis work at our technology centre in Ohio over the course of 2019 and into 2020.

We have collected and processed a vast amount of data from the demonstration plant allowing us to correlate this information with our models to further optimise design and operating parameters. This allows us to improve resilience, volume, and product quality directly benefiting all our current and future clients. This is a critical differentiating capability of Velocys at this early stage of development of the new sustainable fuels industry.

Our reference projects

Altalto Biorefinery, Immingham, UK

In 2019 we secured partner funding of £2.8m for the project we are developing in collaboration with British Airways and Shell. Plans were submitted in August 2019 to North East Lincolnshire Council planning authority for the first commercial-scale waste-to-jet fuel plant in the UK using municipal solid waste as feedstock. As a business we completed a global competitive selection process leading to the appointment of Worley as our global engineering contractor to support the delivery of Velocys' fully integrated technology package and to become the Owner's Engineer for our two reference projects. Velocys continues to engage with the UK Government to secure additional long term policy support required for the project to reach financial close.

Mississippi Biorefinery, Natchez, MS, USA

An agreement was signed with Oxy Low Carbon Ventures, a subsidiary of Occidental, to process biogenic carbon dioxide from the Mississippi plant for permanent sequestration using existing infrastructure near to the current site. We developed a solar power solution for the plant, saving capex and further decreasing the carbon intensity of the fuels produced.

In order to raise the capital for FEED engineering and construction we appointed Hamilton Clark Sustainable Capital in Houston. In addition, detailed due diligence and value-added engagement by potential strategic partners continues. The project has been further optimised to achieve a negative carbon intensity for 20-25 million gallons of sustainable aviation fuel, or diesel and gasoline blendstock, per year from 2025.

Outlook for 2020

During July 2020 the Company raised approximately £21m (before expenses) through a Placing, Retail Offer and Open Offer. The success of this fundraise at a time of international economic distress, particularly in the airlines and oil sector is a great validation of our capital light strategy within the sustainable fuels sector. This has been supported by the UK government who have promoted the green recovery as well as supporting our Altalto Immingham project with a further £0.5m grant, announced in July 2020. This capital raise accelerates our ability to provide commercial scale turn-key solutions to fuel producers in the energy transition away from fossil fuels into sustainable fuels towards improved air quality and net zero carbon emissions.

In 2020 we have seen the continuation of the Altalto development with our strategic collaborators British Airways and Shell investing a further £1m of non-dilutive capital into the project in May at a time of great economic difficulty in the airline industry; we achieved the granting of planning permission for the plant and will now focus on detailed post-planning work in the engineering throughout the rest of the year. We have also completed the FT and catalyst orders to our clients in Oregon and Japan, and expect to secure FEED financing for the Mississippi biorefinery project. We plan to seek and secure pre-FEED engineering contract work from one or more parties for similar type and scale of facilities as our two reference projects.

I believe Velocys is well positioned to create significant shareholder value from our unique position at the cutting edge of sustainable fuels technology. However, there remain many challenges for our business over the next twelve months, not least of which is the recent economic downturn caused by COVID-19. This may manifest itself in delays to the development of our reference projects. A number of the other risks relating to our business are set out in the risk and mitigation section on page 12. The Board monitors these risks proactively and communicates with Shareholders in order to minimise their effects.

My thanks to all my colleagues at Velocys, our shareholders old and new along with our strategic partners for their continued commitment and relentless efforts during the intensive phase of scaling-up technology delivery and project development during 2019 and into 2020.

I would like to welcome Philip Holland as our new Chairman from December 2019, and I would also like to take this opportunity to thank Dr. Pierre Jungels for his continued support to me and the team during the year and wish him well for the future.

Henrik Wareborn
Chief Executive Officer
5 August 2020

Financial review

Revenues

Velocys plc is managed as a single operation and referred to as "the Company" throughout the strategic report. The "Company" results represent the consolidated results and Velocys plc results are for the parent company only. The Company recognised revenue of £0.3m (2018: £0.7m). The 2019 revenue was primarily the result of the delivery of reactor components to Toyo and professional service related to ongoing reference projects. Gross profit decreased to £0.2m (2018: £0.4m).

Expenses and income

Administrative expenses before exceptional items reduced by 48% to £9.9m and £9.8m after exceptional items (2018: £19.1m before and £29.1m after exceptional items). The reduction before exceptional items is principally the result of aggressive cost management and restructuring of certain functions in the Company leading to significantly reduced corporate overhead, third party consulting costs, legal and travel costs.

The exceptional items of £0.1m credit (2018: £10.1m cost) is the impairment of the value of land held as an asset offset by the release of deferred revenue as the part-repayment to the Company of its secured loan to ENVIA.

Other income before exceptional items during the year consisted of £0.08m (2018: £0.04m) from the sale of assets associated with the final closing of the ENVIA plant.

Operating losses were £9.6m, before exceptional items credit of £0.1m related to impairments (2018: £18.6m before exceptional items of £10.1m). The reduction of the operating loss is principally the result of a decrease in administrative expenses period over period.

Assets and Cash

The net assets of the Company were £2.3m, which is down from the £5.4m in 2018. This decrease was principally the result of a reduction of cash and trade and other receivables offset by an increase in deferred revenue and other liabilities.

The cash outflow from the Company in 2019 was £1.4m (2018: £4.3m cash inflow) principally being cash generated from financing activities of £5.7m, principally attributed to £6.6m received after the fund raise that was successfully completed in July, and £2.3m cash generated from investing activities, less £9.4m used in operating activities. 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 dollars 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 currently invoiced in dollars.

Impairment of assets and investments

In 2019, the Company impaired the land associated with a subsidiary based on the fair value less costs of disposal ("fair value"), by reference to a recent appraisal. In 2019, the Company reversed a 2017 impairment of an inventoried reactor that was not used at ENVIA in the amount of £352,000. This reactor was subsequently sold and delivered in 2019 and is currently presented as deferred cost on the 2019 Consolidated balance sheet until the performance obligations, defined under IFRS 15, are met. The reversal of the impairment in inventories was partially offset by the impairment of pre-qualification cores that did not meet quality specifications to be included in the Red Rock Biofuels order, to the amount of £123,000.

During 2018 the Company recorded an impairment of £10.1m with respect to the loan to ENVIA and £0.9m with respect to the investment as a result of an increase in the credit risk arising from ENVIA's decision to suspend activities.

There has been no change in the Board's assessment of the long-term potential of the Company's assets. As a result of the Board's assessment, there has been no impairment of the Company's assets in 2020. The impairments made, except for Goodwill, could be reversed in future if there is a change in the estimates used to determine the asset's recoverable amount, particularly in relation to the share price of the parent Company. At 31 December 2019, the Board did not consider there has been a change in circumstances that would justify reversal of the impairments recorded in 2018 or that additional impairments were required in 2019.

The parent Company has both equity and debt investments in its subsidiaries, which are compared to the recoverable amount. On this basis, the impairment assessment indicated that the carrying value of the investment in subsidiaries was higher than the recoverable amount, determined by fair value less costs of disposal. As a result, an impairment of £3.3m (2018: £33.3m) was recognised. This impairment was eliminated on consolidation and therefore is not seen in these consolidated statements.

ENVIA

In April 2019, the Company completed negotiations with the remaining partners and site landlord on a wind-down for ENVIA. In the wind-down, ENVIA released the site to the landlord and sold certain assets, the proceeds of which were used to fund wind-down operations and repay £3.4m against part of ENVIA's outstanding secured loan obligation to the Company.

Fundraises

In July 2019 Velocys raised a total of £7.0m (before expenses) via a firm placing and an open offer.

Net proceeds of the capital raising are being used to:

- Complete the development capital fund raising and preparation of the FEED for the Mississippi Biorefinery Project;
- Strengthen and extend the Company's intellectual property portfolio;
- Analyse and test catalyst and Fischer-Tropsch reactors from the recently completed full-scale demonstration in Oklahoma; and
- Fund the Company's working capital and central operating costs.

Future funding

With the successful fundraise in July 2020 of £21m (before expenses), the financial statements have been prepared on the going concern basis, which assumes the Company will have sufficient funds available to enable it to continue to trade for the foreseeable future. The cash forecast includes the following assumptions: (i) the completion of the current stage of the FEED for the Altalto Immingham Project prior to securing funding for the next stage of development to financial close; (ii) the completion of the manufacture and delivery of reactors to our customer Red Rock Biofuels; (iii) the continued process of on-boarding one or more strategic investors to provide the final stages of development funding for the Mississippi Biorefinery Project; (iv) revenue from the ongoing support to our customer Toyo engineering in Japan; (v) the current overhead cost run rate.

The Company's plan is to continue working with our investment partners in the Altalto Immingham Project, having secured £1m additional non-dilutive investment in May 2020 and securing further investment into the project along with completing all the engineering design and commercial arrangements required to reach financial close on the project in 2022. At the same time in the USA we are working to secure investment by one or more strategic partners into the Mississippi project. We are also working with several other interested parties in Europe, the USA and the Middle East developing their own projects potentially using our FT technology within an integrated technology package into a complete plant.

Going Concern

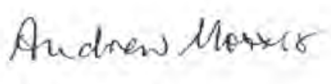
The Company assessed its cash requirements from these activities and raised an additional £21m (before expenses) through an equity fundraise via a Placing, Retail Offer and Open Offer. The directors consider that this is sufficient funding for the Company to continue as a going concern beyond twelve months of the date of this report. The directors do not anticipate that any further funding to the Company will come from further placing of the parent company shares during this period. However additional income may come from one, or a combination of, the following sources, with agreements being actively sought from third parties:

- Additional third-party license sales, similar to the Red Rock Biofuels project.
- The realisation of certain assets and the selling of non-core intellectual property.
- Additional strategic investment of development capital into either or both of Altalto Immingham Project and the Mississippi Biorefinery Project, which are expected during 2020 and the first half of 2021.
- UK or USA Government loans or grants.

The directors are confident that the funding received by the Company in July 2020 will ensure that it will continue as a going concern and that there will be sufficient funding in the Company to continue to support its activities for the foreseeable future being not less than twelve months from the date of approval of these financial statements. The directors have therefore prepared the financial statements on a going concern basis. The financial statements do not include the adjustments that would arise if the Company and Velocys plc were unable to continue as a going concern

As in previous years, the Board will be proposing a further Special Resolution at the forthcoming Annual General Meeting to approve the disapplication of the pre-emption rights equal to 15% of the issued share capital.

Following financial close of one or both reference projects in early 2022, the Company's funding requirements will depend on the final structure of each of the biorefinery project consortia and on the Company's strategy to support projects developed and funded by third parties. Risks and uncertainties regarding the two projects are detailed on pages 12 to 17.



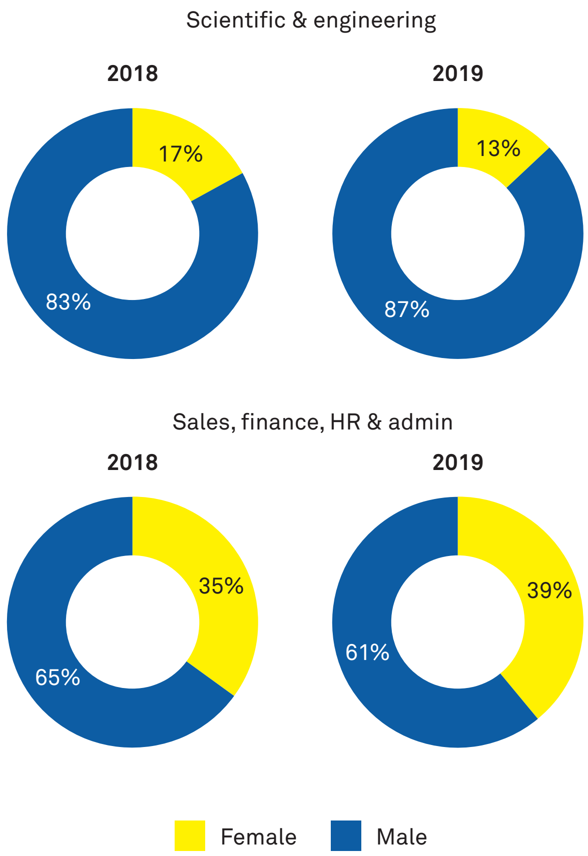
Andrew Morris
Chief Financial Officer
5 August 2020

Corporate social responsibility and KPIs

Employees

Velocys strives to be a good employer and endeavours to train staff well, to pay them fair market value and to maintain a safe environment in which they can work. Velocys is committed to equal opportunities for all its employees. Of the 33 global employees working for Velocys at 31 December 2019, 27% were female (2018: 26%). At the end of 2019, one of the five members of the Board was female (2018: one of four members). The percentage of female employees broken down by areas of the business was as shown below.

Gender diversity



Health and Safety

Velocys takes the safety and well-being of its employees seriously. Velocys has created a culture of safety, health, and environmental responsibility and continuous improvement that extends from the CEO to all employees. Each employee is encouraged to actively participate in, and take responsibility for, their own safety and health through various opportunities, such as by providing suggestions for improvement, participating in safety and environmental training and site meetings. Holding leadership positions on the site's Safety Committee or serving on an investigation team that performs root cause analysis of potential hazards or near misses at the site is actively encouraged. Velocys maintains detailed records that are required for regulatory compliance, and also ensures safety policy, programme, and hazard communication documents are available to all staff.

Velocys' dedication for continuous improvement, understanding root causes and implementing corrective and preventative actions is evidenced in late July 2018 after the Company experienced its first Lost-Time Accident ("LTA") at the Ohio location. All staff have taken part in a lessons-learned session from the 2018 LTA, with a focus on identification and prevention of hazards. Relevant staff were retrained on several safety topics that led to the accident. An elevated level of rigor is placed on completing thorough job safety analyses before work on a new or unfamiliar task begins. To ensure lost time accident risk is minimised the company has a rigorous practice of near-miss reporting throughout its activities.

Since the 2018 incident, the Velocys sites in the US have logged over 87,421 operating labour hours without an LTA. The UK site continues to operate without any lost time, bringing the total number of operating labour hours without an LTA to over 401,815 in the United Kingdom.

Environment

Velocys recognises that as an advanced biofuels company it has a duty to limit the environmental impact of its own operations. As such, the Company is careful to monitor the environmental impact of its operations. Air travel and buildings operation have been identified as two of the major factors in the Company's direct CO_2 emissions. We also strive to ensure our reference projects are optimised so that they produce product with the lowest carbon intensity score from the most energy efficient plants.

Steps being taken to reduce direct CO_2 emissions in Velocys' operations include permitting business class travel only on overnight long-haul flights, replacing travel for face-to-face meetings with telephone and video calls where practical, measuring and minimising direct energy consumption though efficient use of energy-using assets and minimising waste production and on-site water consumption.

Key performance indicators (“KPI”s) and milestones

The Company’s business strategy is to exploit the use of its core technology, micro-channel Fischer-Tropsch reactors, to produce sustainable fuels. During 2019, the Company focused on the following KPIs as a measurement of the company’s success.

- Completion of our supply contracts to our customers and expanding revenues of the Company.
- Ensure that the costs of the business are controlled to give the most capital efficient operations.
- Raising awareness of our technology and its potential to reduce emissions.
- Continuous improvement of our core technologies and the manufacturing of the Velocys micro-channel Fischer-Tropsch reactors.
- Continuing the development of our reference projects and the addition of new projects.
- Commissioning of our reactors at our reference projects.

In 2019 the key milestones for the Company were as follows:

- Delivery of reactors and reactor components to our customer Red Rock Biofuels.
- Develop the Carbon Capture and Storage (“CCS”) and solar power content for the Mississippi Biorefinery Project.
- Secure one or more strategic investors into the Mississippi biorefinery project.
- Secure second stage consortium funding for the Immingham, UK waste-to-jet fuel project.
- Complete Oklahoma site demobilisation and receive £3.4m
- Complete license agreements with all major process licensors and appoint an EPC contractor to the Altalto project
- Complete an equity fund raise during the year to ensure the Company has the funds to achieve these milestones.

Financial results were reviewed on a regular basis by Directors. Careful monitoring of the Company’s cash and cash commitments is undertaken to ensure that all the fiduciary responsibilities and commitments of the Directors are met.

The performance of the Company against these milestones is expanded upon in the CEO’s report on page 6. The financial results are outlined in the Financial Review on pages 8 to 9.

Risks and mitigation

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

The Executive Directors are responsible for identifying, managing and mitigating the risks to the Company. The Audit Committee reviews the processes and controls for ensuring material business risks are identified and managed appropriately. These are subsequently put to the Board annually for inclusion in the Annual Report.

There are a number of risks and uncertainties that have the potential to impact the execution of the Group's strategy, as well as its short-term results. The principal risks which are considered to have a potentially material impact on the Company's long-term performance and delivery of its strategy are set out in the following table. Rating of the risks to high, medium or low is also shown to demonstrate the importance of the risk to the Company.

Risk description and impact	Risk management strategy	Risk Rating
Financial risks		
Access to capital The Company is expected to remain cash flow negative for a period of time and continues to be reliant on additional external capital for its ongoing operations, investment program in scaling up manufacturing capability as well as reference project development.	The Board recognises that the Company needs to raise additional capital from current and new shareholders on the back of achieved technology demonstration and project milestones. The Company's strategy is to build up a number of customer developed projects that earn the Company annually recurring revenues, which will lead the Company to being profitable with positive long-term cashflows.	**High**
Foreign Exchange risk The Company is generally funded in GBP while more than half of its costs and most of its revenues are in USD. It should be noted that the functional currency for the Company is GBP as the Company is traded on the AIM market and is head quartered in the UK.	Based on regularly updated cash flow forecasts the required currency mix holding in the treasury accounts is identified and implemented to minimise net foreign exchange exposures under the Company's overall Treasury Policy. At the time of reporting, all new equity-based fund raises are completed in the UK and made in GBP.	**Low**
Reference project funding risk Velocys relies on strategic third-party project investment for development capital to progress both its reference projects to Financial Close covering Front End Engineering and Design, FEED, as well as pre-FEED costs.	Current strategic partners have largely funded the pre-FEED work for the UK reference project and the Company is in the process of securing third party funding for the FEED stage of the US reference project. Velocys will not proceed with any unfunded project development until it has been secured.	**Medium**

Risk description and impact	Risk management strategy	Risk Rating
Decarbonisation policy risk		**Medium**
Velocys' clients rely on policy support to secure a significant explicit or implicit revenue for avoided CO_2 emissions. The main risk is that political support wanes for mitigation of climate change such as decarbonisation of fuels. The US has withdrawn from the Paris climate accords in 2020, which may indicate where the current administration is moving towards, however against this there are up to 10 States considering implementing low carbon fuel standards similar to California.	Policy support is well established in the US and UK via RFS-2 and Road Transport Fuel Obligations respectively. The Landfill tax in the UK, or equivalent Gate Fees for landfilling in the US provide economic incentives for Velocys' technology adoption. Additional incentives for avoided CO_2 equivalent emissions are in place in a number of US States, such as the Low Carbon Fuel Standard in California. Velocys and its strategic partners are pursuing joint pro-active engagement with respective governments and transnational organisations such as the International Civil Aviation Organisation ("ICAO") to further strengthen and extend essential policy incentives for sustainable fuels. The Company is an active member of advance renewable fuels industry organisations in the UK and in the US, and contributes to a broader engagement on these common policy goals.	
Technology and Commercial execution risks		
FT Reactor performance		**Medium**
Velocys FT reactors might not perform as expected or at full conversion rate.	The Company has successfully demonstrated its FT reactors at commercial scale for over 5000 hours of operations at a demonstration site in Oklahoma during 2017-2018. In addition, a number of pilot runs have been conducted on various forms of feedstock in recent years in North Carolina, Brazil, Austria and in Australia.	
FT Catalyst performance		**Low**
Velocys Actocat OMX catalyst might not perform as expected or for as long as expected.	The Company has demonstrated full catalyst performance at commercial scale over 5000 hours at a demonstration plant in Oklahoma in 2017-2018 as well as in numerous pilot runs and in a very large number of hours of laboratory runs demonstrating long term resilience of the catalyst as well its ability to regenerate.	

Risks and mitigation
continued

Risk description and impact	Risk management strategy	Risk Rating
Risk of performance of and integration with other licensors' technology Technology supplied by other licensors may not function as expected or may not integrate as envisaged with Velocys technology, which could cause plants to operate sub-optimally.	Commercial experience on representative feedstock is a key selection criteria for Velocys' consortium of process licensors. Thermochem Recovery International ("TRI") and Velocys operated an integrated gasification-Fischer Tropsch demonstration at TRI's Advanced Development Center in Durham, North Carolina in 2018 where over 900 hours of qualifying operation was logged and from where some FT liquids were upgraded to on-specification FT diesel and naphtha. Subsequently, Synthetic Paraffinic Kerosene ("SPK") and naphtha was upgraded in 2019. The Company's providers of technology are world leading in their fields, deploying well tested technologies with multiple commercial scale references worldwide. This significantly reduces the technology integration risks associated with operating a Velocys FT based biorefinery.	**Medium**
Reference projects execution risk There are no guarantees that the any project will proceed through all successive development phases. Existing project partners may not be willing to fund the project to Financial Close. Capex, opex and revenue estimates derived during engineering studies, combined with views on risk, lack of sufficient policy support or otherwise may make the project unattractive to capital providers.	The Velocys project engineering team in collaboration with our global engineering partner, Worley, is managing the projects in a way to maximise risk reduction per unit cost, reducing the most significant uncertainties earlier and only later deploying more resources required for the finer detailed engineering when the major cost and schedule risks are significantly reduced.	**High**
Procurement and Construction contracting risk Failure to contract a comprehensive procurement and construction partner at a competitive price for each project could lead to delays in reaching Financial Close.	Velocys has designed a competitive bidding process for the Procurement and Construction phase to be executed later in the FEED phase of each reference project. Separation of the Engineering activity from Procurement and Construction is a strong risk mitigation strategy.	**Medium**
Supply Chain Risks and Other operational risks		
Supply chain delays Unplanned complications, whether operational or financial, with equipment suppliers in our manufacturing supply chain could lead to delays in our deliveries of reactors and catalyst to our clients potentially triggering Liquidated Damages on our supply contracts.	Working with proven experts in the field of manufacturing for our type of equipment is the main way to mitigate against the potential for problems leading to delays in our supply chain. Maintaining inventory equipment helps mitigate against delays in manufacture. A robust Quality Assurance Program is followed for the supply of commercial catalyst and reactors.	**Medium**

Risk description and impact	Risk management strategy	Risk Rating
Loss of intellectual property ("IP") protection or key staff capability Unauthorised third parties may receive or obtain confidential information about our core technology, thereby exposing the Company to competitors obtaining this information and gaining a competitive advantage. Key staff and their expertise may leave the Company.	Loss of IP is mitigated by having the core technology protected by Patents and laws supporting protection of Intellectual Property rights. Velocys has invested significantly in patents and IP protection for our designs and inventions and vigorously defends all our entrenched rights. We also aggressively protect and defend a large body of trade secrets, often in the form of specific knowhow relating to test or analysis methods, which is also part of our overall portfolio of IP. This type of Intellectual Property has been protected by securing non-disclosure agreements with parties requiring knowledge of such IP to fulfil transactions of benefit to Velocys. To retain staff expertise and protect Company IP Velocys provides competitive compensation to attract and retain staff.	**Medium**
Health, safety and environmental risks HS&E risks occur in all businesses such that incidents may take place resulting in injury or exposure to hazardous conditions for an employee, contractor or customer.	The Company has an excellent in-house safety record. All employees are trained according to OSHA requirements in a range of practices related to safe operations and for handling hazardous substances and the Company's HSE procedures and practices are outlined on page 10. Velocys will provide operational management services, incorporating rigorous HSSE advice to support future biorefineries that either the Company, or third parties develop.	**Low**
Competing technologies There are other technologies either already in existence or in development that could take market share from Velocys.	Velocys and its partners have invested significant resources in plant integration optimisation and modularisation, achieving reductions in capex and opex intensity on a per gallon basis. Such advances take a long time to develop and provide Velocys with a competitive advantage beyond its core Fischer-Tropsch technology capability. In addition, the Company believes that the market is large enough to support multiple suppliers. However, due to the complexity of the processes to convert solid bio feedstocks to drop-in fuels at commercial scale, the barriers to entry are significant.	**Medium**

Risks and mitigation
continued

Risk description and impact	Risk management strategy	Risk Rating
Brexit risk There is uncertainty surrounding the outcome of the Brexit trade negotiations with the EU. This could cause a significant medium term economic downturn in the UK. Any reduction in the competitiveness of the UK economy due to its departure from the EU can impact Velocys via weakness in its funding currency and the UK capital markets along with a reduction of economic activity in its home market.	Velocys is funded primarily in GBP but has significant USD based business protecting itself from being entirely UK centric. This Brexit risk is also mitigated via the long term Treasury policy of foreign exchange risk management. It is also mitigated by the international geographical spread of our customers and the fact that much of our operations and business is based in the USA.	**Medium**
Pandemic risk As has been seen recently the risk of the spread of an infectious disease can lead to Governments' declarations of a disease being a Pandemic. This can cause significant business interruption and a downturn in economic activity. As a direct result there is a heightened risk of bankruptcy of suppliers and customers, with consequential risk for the financial position of Velocys. There is risk to the health and wellbeing of employees and others related to the business of the Company as well as a threat to the ongoing financial capability of the Company to continue as a going concern.	The Company has a Pandemic risk policy and the technology and training in place for all employees to work from home for an extended period of time. Velocys has therefore, a high capacity of operating in a fully distributed mode for a long period of time collaborating over video links, while protecting each other from any potential contamination. This enables the Company to protect the health of its employees whilst maintaining a high level of economic activity and financial welfare. At the time of reporting, due to the COVID-19 pandemic, the Company is not operating any demonstration plants or significant labour intensive operations, and all employees are engaged in high-value engineering and commercial optimisation work for clients and reference projects which are not yet in construction. The company reviews the credit worthiness of suppliers and customers, and makes every effort to ensure they are able to fulfil contracts.	**Medium**
Fraud risk Fraud can be perpetrated from both within the Company as well as from outside. The primary responsibility for the prevention and detection of fraud rests with those charged with governance of the Company and its management.	The Board manages risk of fraud by the controls set in place to manage the transactions within the Company along with the policies and procedures commensurate with these transactions. These are reviewed on a regular basis and the Executive Management are held to account by the Board of Directors and the Governance structure of the Company. Also and importantly the appointment of experienced Executives to manage and control the business supported by qualified staff, all with vested interests in the success of the business, ensure that fraud is avoided or otherwise detected early and controlled. In addition, the duties of key staff and Directors are segregated sufficiently to secure good oversight of transactions and ensure irregularities are avoided or detected early.	**Medium**

Risk description and impact	Risk management strategy	Risk Rating
Impairment risk The Group holds intangible assets and property, plant and equipment, of which the valuation may change. When considering the value in use, given its early stage, there remains a significant amount of uncertainty in any commercial roll-out of the Group's technology, and thus in management's forecasts.	Group assets are valued and reviewed on a continuous basis by management, supported by an annual impairment review. Management are required to review for impairment indicators, in accordance with IAS 36.	**Medium**

Approved by the Board and signed on its behalf by:

Henrik Wareborn
Chief Executive Officer
5 August 2020

Corporate Governance

Corporate governance report

Introduction

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

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

The Directors recognise the value and importance of good corporate governance and are committed to drawing upon best practice and maintaining high standards. Further to the amendment to AIM Rule 26 with effect 28 September 2018, the Board has determined to follow the QCA Code, published by the Quoted Companies Alliance ("QCA"), which sets out a minimum best practice standard for small and mid-size quoted companies, particularly AIM companies.

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

The QCA's Ten Principles of Corporate Governance

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

Deliver Growth

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

The Board is responsible to shareholders for setting the Company's strategy and overseeing its execution, and for the overall management, control and performance of Velocys' business. Velocys' strategy and business model can be found in the Chairman's and CEO's reports on pages 4 and 6, respectively.

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

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

At the Company's Annual Meeting, the Chairman and Chief Executive Officer are available before and after the meeting for further discussions with shareholders. The Chief Executive Officer and the Chief Financial Officer attend meetings with shareholders and analysts on various occasions during the year, primarily following the Company's Annual Results and Interim Results announcements. Relevant feedback from shareholder discussions is advised to the Board. Other members of the Board including the Chairman and the Head of the Remuneration Committee have also either met or consulted with Shareholders from time to time. The Board considers that their policy on shareholder engagement has resulted in the considerable support demonstrated by major shareholders since the Company was originally admitted to AIM in 2006.

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

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

Velocys is committed to being a good employer and endeavours to train staff well, to pay them fair market value and to maintain a safe environment in which they can work. We are also committed to equal opportunities for all our employees. In addition, as an advanced biofuels company, we have a duty to limit the environmental impact of our own operations and are careful to monitor and improve their environmental impact. Further information on our corporate social responsibility and KPI's can be found on page 10.

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

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation.

The Company employs directors and senior personnel with the appropriate knowledge and experience for a business active in its field of operations and undertakes regular risk assessments and reviews of its activities.

The Audit & Risk Committee reviews all of the Company's principal risk management policies and the ongoing development of a Company risk register. Further information on Risk Management can be found page 12. This is discussed with, amended if required and adopted by the Board at least annually.

The principal risks and uncertainties that are considered to have a potentially material impact on the Company's long-term performance and delivery of its strategy are set out pages 12 to 17.

Maintain a Dynamic Management Framework

5. Maintain the board as a well-functioning, balanced team led by the chair.

The Board comprises a Chairman and two part-time Non-Executive Directors with relevant experience to complement the two full-time Executive Directors and to provide an independent view to the Executive Directors. Details of the Board can be found in the Corporate Governance Report on page 22. A time commitment of up to 4 days a month is expected of the Non-Executive Directors.

Attendance at Board and committee meetings

	Scheduled Board meetings	Special Board meetings	Audit & Risk Committee	Remuneration Committee	Nominations Committee
Number of meetings held in 2019	6	6	4	5	1
Attendance* by:					
Pierre Jungels	100%	100%	–	–	100%
Philip Holland	100%	100%	100%	100%	100%
Darran Messem	100%	100%	100%	100%	100%
Sandy Shaw	100%	100%	100%	100%	100%
Andrew Morris	100%	100%	–	–	–
Henrik Wareborn	100%	100%	–	–	–

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

Philip Holland and Darran Messem were appointed to the Board as non-executive directors on 1 January 2019.

Pierre Jungels retired from the Board as Chairman and as a non-executive director on 10 December 2019 having served more than four consecutive three-year terms of office, and Philip Holland was appointed as the Company's new Chairman. At the time of Philip Holland's appointment as Chairman, he met the independence criteria set out in the UK Corporate Governance Code. Thereafter the test of independence is not appropriate in relation to the Chairman. The Board regards each of the other Non-Executive Directors as being fully independent.

Philip Holland was appointed as Senior Independent Director on 1 January 2019 and stepped down from this position following his appointment as Chairman on 10 December 2019, on which date Sandy Shaw was appointed Senior Independent Director in his place.

Philip Holland and Darran Messem were appointed as members of the Company's Audit and Risk, Remuneration and Nominations Committees on 1 January 2019. Philip Holland stepped down as a member of the Audit and Risk, and Remuneration Committees, following his appointment as Chairman on 10 December 2019. Other committee changes during the year are shown in section 9 below.

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

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

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

6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities.

The Board includes individuals with a deep knowledge of markets worldwide and relationships at the highest level of industry. The Board believes that, as a whole, it contains the necessary mix of experience, skills, personal qualities (including gender balance) and capabilities to deliver the strategy of the Company for the benefit of the shareholders over the medium to long term. This is an area which is maintained under constant review.

Corporate governance report (continued)

Name Philip Holland
Role Chairman
Skills and experience
Philip was appointed as Senior Independent Director of Velocys in January 2019, and as Chairman on 10 December 2019. Philip holds a BSc in Civil Engineering from Leeds University and a MSc in Engineering and Construction Project Management from Cranfield School of Management. He has extensive experience in managing large scale oil and gas projects around the globe. In 1980, he joined Bechtel Corporation and managed major oil and gas projects in a wide range of international locations. In 2004, he joined Shell as vice president of projects, Shell Global Solutions International. In 2009, Philip became Executive Vice President Downstream Projects in Shell's newly formed projects and technology business and in 2010 he was appointed as Project Director for Shell's Kashagan phase 2 project in Kazakhstan, and subsequently the Shell/QP Al Karaana petrochemicals project. Since 2013, he has operated as an independent project management consultant. Philip joined the Board of Enquest plc in August 2015, where he chairs its Risk Committee and is a member of its Remuneration Committee.

Name Henrik Wareborn
Role Chief Executive Officer
Skills and experience
Henrik was appointed Chief Executive Officer and Executive Director in November 2018, having acted as a consulting adviser to the Company and provided services equivalent to those of a Chief Commercial Officer since March 2017. Henrik was formerly a Managing Director with Natixis S.A. (both in the UK and North America), and previously Global Head of Crude Oil Sales and Trading at BP PLC. His experience prior to this included roles as Executive Director at Hess Energy Trading Ltd, and Executive Director at Goldman Sachs International, London. His expertise includes investment banking, commodities trading, fund raising, and commodity finance. Henrik has an MBA from INSEAD and graduated from the Stockholm School of Economics with a BA in finance and economics.

Name Andrew Morris
Role Chief Financial Officer
Skills and experience
Andrew was appointed Chief Financial Officer and Executive Director in November 2018. He was formerly a Non-executive Director of the Company and Chair of Velocys' Audit Committee and has been on the Board since June 2017. Andrew has extensive experience as Chairman, CEO, CFO and Group Finance Director with significant involvement in financing and business development for AIM companies, SMEs and private equity backed organisations. He has considerable experience in the power and renewable energy, energy from waste and biofuels sectors. Until November 2018, he acted as CEO of Envirofusion, a company with nascent technology in the waste-to-energy and biomass-to-power sector. For six years he acted as Commercial & Finance Director for Advanced Plasma Power Limited, a private equity funded company that owns gasification and plasma waste treatment technology. He began his career at Price Waterhouse in London, is a qualified accountant and graduated from the University of Newcastle with a BSc in agricultural economics.

Name Sandy Shaw
Role Senior Independent Director
Skills and experience
Sandy was appointed to the Board of Velocys in October 2012 and chairs the Remuneration Committee. Sandy has nearly 40 years of experience in the oil and gas industry. From 2008 until its take-over in 2013 Sandy was an Executive Director Corporate & Commercial, and Company Secretary of Valiant Petroleum PLC, a company of which she was a founder and initially a Non-Executive Director. She has held senior executive positions as group legal counsel and/or commercial director for numerous companies including Consort Resources, LASMO PLC (where she was also inter alia President of LASMO USA), Esso Petroleum, Marathon Oil and Mobil. Sandy has extensive oil and gas M&A experience, has overseen numerous material private equity subscriptions and led a £200m trade sale through to final negotiations. She has worked as a consultant to several oil and gas companies, as well as two UK law firms. In January 2019 Sandy joined the Board of Hurricane Energy plc as a Non Executive Director and Chair of the Remuneration Committee.

Name Darran Messem
Role Non-Executive Director
Skills and experience
Darran was appointed to the Board of Velocys in January 2019 and chairs the Audit & Risk Committee. Darran has 30 years of commercial experience in energy, transport and sustainable development, with particular focus on renewable energy and low-emission transport. He has served as Managing Director Certification and International Director at the Carbon Trust, Vice President Fuel Development at Shell, and General Manager Market Development at British Airways. At Shell he worked on the removal of lead and sulphur from fuel in the UK, and the development of Shell's global biofuel business, where he worked on a number of biofuel technologies including gasification and Fischer-Tropsch synthesis. He was Shell's nominated Director, and subsequently elected Chair, of Iogen Energy. From 2014 to 2020 he served as Chair of the Low Carbon Vehicle Partnership, where he remains Director, a UK public-private partnership that works to accelerate the deployment of low carbon vehicles and fuels. In July 2019 Darran was appointed to the Board of BRE (formerly the Building Research Establishment) and chair of the Remuneration and Nominations Committee, and in November 2019 he was appointed as an advisor to the Roads Advisory Panel of the UK Office for Rail and Road.

Internal Advisory Responsibilities

The Company Secretary, through the Chairman, is responsible for advising the Board on governance matters, and for ensuring that Board procedures are followed and that the Company complies with applicable rules and regulations. All directors have access to the advice and services of the Company Secretary. An agreed procedure exists for directors in the furtherance of their duties to take independent professional advice. During 2019, no director sought independent legal advice pursuant to the policy.

The Company regularly reviews the ongoing training requirements of directors as part of the annual board evaluation process. Directors keep their personal skillsets up to date through a combination of industry contact, reading of relevant material and, where appropriate, training courses.

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

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

An annual evaluation of the Board and its committees is carried out by the Company Secretary, taking the form of comprehensive questionnaires which provide all directors with an opportunity to score (1=Dissatisfied; 5= Satisfied) their opinion on a series of questions in relation to inter alia the constitution, execution and performance of the Board and the three committees, and to comment on procedures or any relevant matters. Average scores for each question are measured against the relevant score in the previous two years to help identify trends and are also assessed in absolute terms. Written comments, on an unattributed basis, are assimilated into a written report.

A performance evaluation of the Chairman is carried out, led by the Company Secretary, and takes into account the views of all directors. As in previous years, the results of the evaluation are considered on an unattributable basis by the Board and each committee in open session and, where appropriate, actions arising from such reviews are implemented.

Actions have resulted in continued improvements to timing and quality of management information; the provision to the Board of more detailed information on individual projects, including the visit by the Board to Plain City, Ohio to meet the technical team there and receive presentations from senior management; and improvements to the structure and workings of committees.

Succession planning at Board and Committee level is formally reviewed on an annual basis. During 2019, the Board reviewed its succession plan for all Board members and senior management. In accordance with best practice, all directors are proposed for re-appointment at the Annual General Meeting, and due consideration is given by the Nomination Committee as to whether individual directors are recommended for re-election.

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

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

The Board ensures that the Company has the means to determine that ethical values and behaviours are recognised and respected through the adoption of appropriate policies, including an Anti-Bribery and Corruption and Anti-Modern Slavery Policy; a Whistleblowing Policy; and a Policy on Equal Employment Opportunity and Diversity.

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

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

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

Board Committees

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

Audit & Risk Committee

The members of the Audit & Risk Committee are currently Darran Messem (Chair) and Sandy Shaw. Sandy Shaw was Chair during the period 1 January 2019 to 17 September 2019, and Philip Holland was a member during the period 1 January 2019 to 10 December 2019 when he stepped down on his appointment as Chairman. Meetings are held not less than four times a year and are based on the work programme set out in the Audit Committee Guide published by the QCA.

Under its Terms of Reference, which can be found on the Company's website, the Audit & Risk Committee reviews inter alia the Company's audit planning, risk management systems and processes and effectiveness of internal controls, accounting policies and

Corporate governance report (continued)

financial reporting, provides a forum through which the external auditors report, and reviews and monitors their independence and the provision of additional services. At least once a year it meets with the external auditors without executive directors present.

Financial information

The Company prepares detailed budget and working capital projections, which are approved annually by the Board and are maintained and updated regularly throughout the year. Detailed management accounts and working capital cash flows are prepared on a monthly basis and compared to budgets and projections to identify any significant variances.

The Audit & Risk Committee has considered the integrity of the Company's 2019 financial statements and reviewed the appropriateness of its critical accounting policies and the judgements made in applying them. The year-end financial statements were reviewed and discussed with PricewaterhouseCoopers LLP. In addition, the interim financial statements were reviewed by the committee. The committee considered, among others, the following specific matters:

- Going concern – see page 9, for consideration from the board regarding going concern.
- Valuation of assets (consolidated company) and investment in subsidiaries (Velocys plc).
- COVID-19.

Audit review

The Audit & Risk Committee has discussed PricewaterhouseCoopers LLP's audit process and has reviewed the findings from the audit of the 2019 financial year as well as the effectiveness of the external audit process. The committee reviewed the quality and cost effectiveness of the external audit, and the independence and objectivity of the auditors. It obtained confirmation from PricewaterhouseCoopers LLP that their independence and ethics policies complied with FRC requirements, and that they remain independent and maintain internal safeguards to ensure their objectivity. No contractual obligations exist that restrict the Company's choice of external auditor and the committee is satisfied that the external auditor remains independent.

The committee has established policies determining the non-audit services that the external auditors can provide and the procedures required for approval of any such engagement. Further details of fees paid to PricewaterhouseCoopers LLP for both audit and non-audit work can be found in note 11 to the financial statements.

Remuneration Committee

The members of the Remuneration Committee are currently Sandy Shaw (Chair) and Darran Messem. Darran Messem was Chairman during the period 1 January 2019 to 17 September 2019, and Philip Holland was a member during the period 1 January 2019 to 10 December 2019 when he stepped down on his appointment as Chairman. Meetings of the Committee take place not less than three times a year. Due regard is paid to the Investment Association Principles of Remuneration.

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

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

Nomination & Governance Committee

The members of the Nomination & Governance Committee are Philip Holland (Chair), Sandy Shaw and Darran Messem. Pierre Jungels was Chair during the period 1 January 2019 to 10 December 2019 when he stepped down as Chairman. The committee met once during 2019. Among its duties it reviews the composition of the Board and its succession planning, the Board evaluation process and the findings from recent evaluations, director performance and recommendations for re-elections at the AGM, and considerations of director independence under the corporate governance code. The Terms of Reference can be found on the Company's website.

Build Trust

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

The Board considers effective communication with shareholders to be very important and encourages regular dialogue with investors. Directors regularly attend meetings with shareholders and analysts throughout the year, and the Board responds promptly to questions received. Shareholders will be given at least 21 days' notice of the Annual General Meeting, at which they have the opportunity to raise questions of the Board on the Company's developments and performance, although special arrangements will be made in respect of the 2020 Annual General Meeting in light of the COVID-19 emergency. Details of arrangements for the 2020 Annual General Meeting are set out in the Company's notice of 2020 AGM which is being published at the same time as this Annual Report and are available on the Company's website. Further information is shown under QCA Principle 2 above.

Copies of the Annual Report and Financial Statements are issued to all shareholders and copies are available on the Company's website www.velocys.com, which provides information to shareholders and other interested parties. The website contains full details of the Company's business activities, press releases and links to the London Stock Exchange website for share price information, share trading activities and graphs, as well as Regulatory News Service ("RNS") announcements. The Company Secretary also deals with shareholder correspondence and may be contacted at investors@velocys.com.

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2019

Company

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

Future developments

The Board aims to pursue its corporate strategies as detailed in the Strategic Report on pages 4 to 17.

Dividends

The Directors do not recommend any dividend for the year ended 31 December 2019 (2018: nil).

Research and development

The Company's R&D activity now relates primarily to the development of first-of-a kind sustainable fuel projects in the UK and the USA. However, some limited research is being undertaken to establish lessons learned from use of Velocys technology at the Oklahoma plant, both from an operational point of view and from a technical assessment of the results from the plant operations. Details of R&D expense are in note 10.

Donations

The Company made no political donations during 2019 (2018: nil).

Post financial position events

Fundraise of £21 million completed in July 2020

On 14th July 2020, the Company announced that it had completed the fund raising of £21 million (before expenses) through a Placing, Retail Offer and Open Offer. This was confirmed through a General Meeting held on 14th July 2020 and has been announced to the market. Net of expenses the Company has received £19.65m, which will ensure that it has sufficient funding to continue as a going concern for at least 12 months. The Company expects that it will receive income from other sources including customers through licensing and sales of engineering services which will extend this timeline.

COVID-19 coronavirus pandemic

During March 2020 both the UK and the US Governments implemented a social distancing policy, which meant that we had to close down operations at our offices and sites in Oxford, Houston and Plain City and put in place a work from home policy. This has meant that it is difficult to have as many productive face to face meetings as we might have had otherwise but nonetheless progress has been made on all aspects of the business. Our manufacturing of the reactors for Red Rock Biofuels has been completed with the delivery of all four reactors by 30 June 2020. The ongoing engineering work on the Altalto Biorefinery Project in Immingham, UK is continuing and to that end in February 2020 we announced the appointment of Worley as engineering partner for the development of all projects in the Velocys portfolio, including the Altalto Immingham plant.

US SBA loan received

In April 2020, the Company announced the approval of a $709,000 (£567,200) loan from the Pay-check Protection Program awarded by the Small Business Administration ("SBA"), a US Federal Agency. The SBA program is part of the Federal stimulus package known as the CARES (Coronavirus Aid, Relief and Economic Security) Act to offer help to small businesses in the USA during the COVID-19 crisis. This unsecured loan has been awarded to support Velocys' US payroll costs in the short-term. It is an unsecured loan with a 2-year maturity and 0.98% interest. No interest or principal payments are due in the first six months. The loan is however eligible for "forgiveness", becoming non-repayable upon application by Velocys after 60 days from receipt if used for retaining US employees and maintaining US payroll costs of at least this amount in the period until the end of June 2020. Velocys is confident that it will meet the criteria for this "forgiveness".

Altalto Immingham Joint Development Agreement extension

In May 2020, the Company has secured a further £1m funding for the Altalto waste-to-fuels project from British Airways PLC and Shell International Petroleum Company Limited ("Shell"), payable before the end of June 2020. The proposed Altalto Immingham plant is being executed under a Joint Development Agreement ("JDA") between British Airways, Shell, and Velocys. This JDA has now been extended as planned in order to support the continued technical and commercial development of the project. British Airways and Shell have each now been granted an option to take a one-third share in the equity capital of Altalto Limited (a subsidiary of the Company) at a strike price of £1, as a pre-cursor to a full Shareholders' Agreement for Altalto Limited in due course.

Further F4C grant from the Department of Transport

In June 2020, the Company announced that it has secured a further £0.5 million of grant funding for the Altalto waste-to-fuels project from the Department for Transport (DfT), under the Future Fuels for Flight and Freight Competition (F4C). Velocys was awarded a grant of £0.4m in Stage One of the F4C in 2018, and was shortlisted to receive an award in Stage Two. The DfT has now made £0.5m of the Stage Two grant available to Velocys. Velocys is one of the two remaining companies expected to receive the balance of funding in Stage Two, subject to completion of future project milestones.

Directors' report (continued)

Delivery of Reactors and Catalyst to Red Rock Biofuels
In June 2020 the Company completed the manufacturing and supply of the four reactors and associated catalyst for its customer Red Rock Biofuels. The Company invoiced £0.9 million during 2019 which was all treated as deferred revenue in accordance with IFRS 15 until the performance test is completed during commissioning of the plant in 2021.

Legal disputes
The Company may from time to time be involved in disputes which may give rise to claims. The Directors have considered any current matters pending against the Company, including a claim made by the bankruptcy trustee of Ventech Engineers International LLC (a former commercial partner of the Company). Based on the information available and the facts and circumstances of any claims, the Board considers that the outcome of these will be resolved with no material impact on the Company's financial position or results.

Directors
The directors of Velocys plc who were in office during the year and up to the date of signing the financial statements, unless otherwise stated, were as follows.
- Philip Holland (Non-Executive Chairman) – appointed as a director 1 January 2019 and as Chairman 10 December 2019
- Pierre Jungels (Non-Executive Chairman) – resigned as director 10 December 2019
- Henrik Wareborn (Chief Executive Officer)
- Andrew Morris (Chief Financial Officer)
- Sandy Shaw (Senior Independent Director)
- Darran Messem (Non-Executive Director) – appointed as a director 1 January 2019

While the Company's Articles of Association require that all directors are subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of not more than three years, the directors have decided that, in line with best corporate governance practice, at the 2020 Annual General Meeting all of the directors will again retire and offer themselves for re-election, as they did in 2019.

The S172(1) statement of Directors' Duties
The Directors of the Company must act within a general set of duties, which have been set out in section 172 of the UK Companies Act 2006. The new reporting requirements are effective for December 2019 year ends. They arise from the 2018 UK Corporate Governance Code and the Companies (Miscellaneous Reporting) Regulations 2018. Both the Code and the Regulations introduce new requirements for boards to explain how they have taken account of stakeholder views and met the requirements of s172 of the Companies Act. Specifically, the Code states that:

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

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

The matters set out in section 172(1) (a) to (f) are:
(a) the likely consequences of any decision in the long term;
(b) the interests of the company's employees;
(c) the need to foster the company's business relationships with suppliers, customers and others;
(d) the impact of the company's operations on the community and the environment;
(e) the desirability of the company maintaining a reputation for high standards of business conduct; and
(f) the need to act fairly between members of the company.

Below we describe how the Directors fulfil their duties:

Risk Management and Long-Term Consequences
Decisions brought to the Board are considered in the wider context of their consequences for the business both in the short term but also in the long term. We are making decisions about reference projects; feasibility studies with potential partners and customers; manufacturing capacity for many years to come; research into the development of our reactors and catalyst; and health and safety of our employees and customers along with how to resource this work with finance and human resources. The consequences of these decisions and the risks taken have a direct impact on the activities of the Company and the relationships with all aspects of our stakeholders and the community.

For details on how we manage risks in our business please see pages 12 to 17 for our Risk and mitigation section.

Our Employees
During the year a number of actions were taken by the Board to promote the interests of our most important resource, our employees, such that we increased the pension contributions made by the Company to the pensions of employees in the US as well as increasing

the amount of the healthcare benefit provided by the Company for all employees. This has ensured that we have kept our employment packages competitive in the local markets where we are operating both in the UK and the USA. In terms of talent retention, we have awarded a three-year Long-Term Incentive Plan, which includes all our staff. More information about this can be seen in the Directors' remuneration report and in Note 15 Share-based incentives. We engage with our employees on a personal basis by completing a performance evaluation with them twice a year. This can influence decisions on promotion, career advancement, training, fixed and variable compensation. It also ensures that there is an opportunity for us to hear back from our employees as to how we are doing for them as a Company, helping us to improve our employment practices and so the well-being and performance of our team.

Business Relationships

The Company recognises the importance of mutually beneficial, long-term business relationships to our business. Each major relationship with a customer, supplier, trade body, government department or other organisation is assigned a senior manager who is responsible for ensuring overall success and co-ordinating the interactions with other team members. Our business development resources have led, for example, to the current relationship that we have with Toyo Engineering in Japan, whilst also continuing to create new relationships with customers in the USA, Europe and the Middle East. The aim is to develop a pipeline of opportunities throughout the world that will benefit from the use of our FT technology and the integrated engineering package that we have developed in the last few years surrounding a complete waste biomass to fuels plant. This pipeline then develops into a small number of actual projects from which we then earn sales and technical support revenues.

For details on our reference projects please see the Chief Executive's Report on page 7.

Community and the Environment

Our "raison d'être" is to provide a solution to parts of the transport sector that are hard to decarbonise, especially the airlines. As a company we have developed a technology and now an engineered, integrated technology package, which will allow plants to be built with a significant beneficial impact on the carbon emissions of this sector. Indeed in 2019 we announced that we had achieved negative 125gCO2e/MJ equivalent for our planned Natchez Mississippi Project thanks to the carbon capture and storage agreement with Oxy Low Carbon Ventures, demonstrating our commitment towards achieving carbon negative fuels. During the design of the Altalto Immingham plant we have agreed to undertake measures to protect the environment during both construction and operation, and have consulted on our plans with members of the local community. As well as delivering a positive impact from our products, we also aim for continuous improvement of the sustainability of our own operations; this will be part of the focus of the new Head of Communications and Sustainability (see below).

For more details please see our Corporate social responsibility section on Page 10.

Standards of Business Conduct

The Company complies with the QCA code on Corporate Governance, which in part regulates how we conduct our business with all stakeholders. We also have a policy on anti-corruption and bribery and an anti-modern slavery policy, which sets out the rules by which the officers of the Company have to act in relationships with other organisations and the personnel employed by the Company.

For details on our Corporate Governance please see our Corporate Governance report on pages 20 to 24.

Our Members

We treat all shareholders in the Company with equal respect and are grateful to them for supporting the Board throughout this change of strategy from R&D and gas-to-liquids ("GTL") to developing a renewable fuels technology and working in this developing market. Given that we raise funds from the public market on a regular basis the Executives on the Board regularly meet with the larger shareholders of the Company but also have group meetings arranged by our brokers of smaller shareholders to keep all of them up to date with the activities of the Company. Furthermore, recent fundraises included open offers to the wider public and the smaller shareholder community to ensure the Board has acted fairly between our members. In addition, in 2019 we established a new position within the Company of Head of Communications and Sustainability. We have developed regular communications to shareholders through the media including the website, Twitter and LinkedIn.

Directors' report (continued)

Directors' interests

The directors who held office at 31 December 2019 had the following interests in the shares of parent company undertakings (as recorded in the Register of Directors' Interests and including those of the spouse or civil partner and children under 18).

	Velocys plc ordinary shares	
	31 December 2019	31 December 2018
Sandy Shaw	451,091	117,758
Philip Holland	972,894	–
Darran Messem	333,333	–
Andrew Morris	433,333	100,000
Henrik Wareborn	1,666,666	1,000,000

The following Board members purchased shares as part of the July 2019 fundraise during the year (as recorded in the Register of Directors' Interests and including those of the spouse or civil partner and children under 18): Sandy Shaw (333,333), Philip Holland (333,333), Darran Messem (333,333), Andrew Morris (333,333), and Henrik Wareborn (666,666). Philip Holland purchased an additional 639,561 shares in December 2019.

The following Board members purchased shares as part of the July 2020 fundraise (as recorded in the Register of Directors' Interests and including those of the spouse or civil partner and children under 18): Sandy Shaw (100,000), Philip Holland (230,224), Darran Messem (100,000), Andrew Morris (414,484), and Henrik Wareborn (451,779).

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

Directors' qualifying third-party indemnity provision

The Company maintains directors' qualifying third-party indemnity insurance to provide cover for legal action against its directors. This has been in place throughout the year and remains in place at the date of this report.

Financial instruments

The Company's financial instruments are detailed in note 26.

Financial risk management

Financial risks, and exposure and risk management policies and objectives are detailed in the Strategic Report on page 12, and in note 26.

Substantial shareholdings

The Company has been notified of the following holdings of 3% or more of the issued share capital of Velocys plc as at 30 June 2020.

	Number of shares held	Percentage of issued share capital
Ervington Investments Limited	137,855,776	21.41%
Lansdowne Partners	136,220,153	21.16%
Amati Global Investment	66,666,666	10.36%
Hargreaves Lansdown Asset Management	65,592,720	10.19%
Janus Henderson Investors	28,294,316	4.40%
Interactive Investor Trading	25,500,537	3.96%

Post the July 2020 fundraise notifications have been received from the following shareholders notifying changes in ownership of shares in Velocys plc:

	Number of shares held	Percentage of issued share capital
Lansdowne Partners	196,220,153	18.45%
Ervington Investments Limited	137,855,776	12.96%
Ruffer LLP	88,604,000	8.33%
Amati AIM VCT plc	63,313,316	5.95%

Going concern

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

The Company expects to develop its reference projects, in particular, the Mississippi Biorefinery Project and Altalto Immingham Project, which will require significant development and capital expenditure. The Company will also complete the supply of its Fischer-Tropsch reactors to its customer Red Rock Biofuels with its project in Oregon, USA.

The nature of the Company's 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 twelve months from the date of approval of the financial statements.

During July 2020 the Company raised £21 million (before expenses) by way of a Placing, Retail Offer and Open Offer. The directors consider that this is sufficient funding for the Company to continue as a going concern beyond the twelve months of the date of this report. The directors do not anticipate that any further funding to the Company will come from further placing of the parent company shares during this period. However additional income may come from one, or a combination of, the following sources, with agreements being actively sought from third parties:

- Additional third-party license sales, similar to the Red Rock Biofuels project.
- The realisation of certain assets and the selling of non-core intellectual property.
- Additional strategic investment of development capital into either or both of Altalto Immingham Project and the Mississippi Biorefinery Project, which are expected during 2020 and the first half of 2021.
- UK or USA Government loans or grants.

The directors are confident that the funding received by the Company in July 2020 will ensure that it will continue as a going concern and that there will be sufficient funding in the Company to continue to support its activities for the foreseeable future being not less than twelve months from the date of approval of these financial statements. The directors have therefore prepared the financial statements on a going concern basis.

In addition to the July 2020 Placing, Retail Offer and Open Offer, the Company executed an extension of the Altalto Joint Development Agreement providing £1m non-dilutive investment into the Altalto Immingham Project; was awarded a forgivable loan as part of the Pay-check Protection Program awarded by the SBA, a US Federal Agency in the amount of £572,000; and has been awarded a further £0.5m F4C grant from the Department of Transport in the UK (see the Director's Report on page 25 for more information).

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

Annual General Meeting
Special arrangements will be made in respect of the 2020 Annual General Meeting in light of the COVID-19 emergency. Details of arrangements for the 2020 Annual General Meeting are set out in the Company's notice of 2020 AGM which is being published at the same time as this Annual Report and are available on the Company's website.

Auditors and disclosure of information to auditors
Each of the persons who is a director at the date of approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware.
- The director has taken all the steps that he / she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Corporate governance
The Company's statement on corporate governance is available on pages 20 to 24.

Approved by the Board and signed on its behalf by:

Henrik Wareborn
Chief Executive Officer
5 August 2020

Directors' remuneration report

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

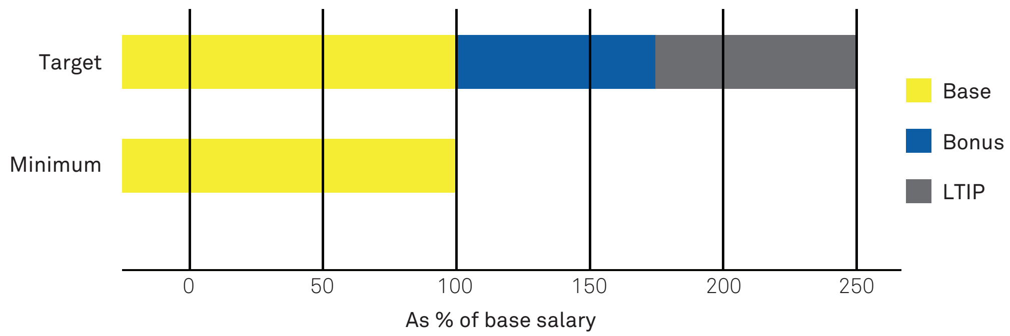
Remuneration Committee
The following served as members of the Committee throughout the year ended 31 December 2019 (unless otherwise specified):
- Sandy Shaw (appointed Chair 18 September 2019)
- Darran Messem (Chair 1 January 2019 to 17 September 2019)
- Philip Holland (appointed 1 January 2019, resigned 10 December 2019)

The Committee's constitution and operation has been compliant with the provisions of the QCA Code, published by the Quoted Companies Alliance, which sets out a minimum best practice standard for small and mid-size quoted companies, particularly AIM companies. In determining remuneration policy for Executive Directors, the Committee takes into consideration both the QCA Code and the guidelines published by The Investment Association Principles of Remuneration (formerly the Association of British Insurers).

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

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

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



Remuneration of Executive Directors
Executive Directors' remuneration is considered annually. In addition, the Remuneration Committee undertakes periodically a comprehensive review using external advisors. Current remuneration is based on the following principles.

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

Annual performance incentive
All Executive Directors are eligible, at the discretion of the Remuneration Committee, for an annual bonus. The target bonus award for each individual is based on a percentage of base salary, which, for the year commencing 1 January 2019, was 75%. The Remuneration Committee sets performance targets for bonus awards at the beginning of each year. Awards are determined by both the performance of the individual and the Company as a whole at the end of each year. The performance targets for the Company comprise measures of financial, technical and business development goals. Where performance is judged against measurable targets, the Remuneration Committee retains discretion to adjust the outturn to ensure it is fair, reasonable and related to the Company's performance and shareholders' experience. For 2019 performance, bonus will remain at the discretion of the Remuneration Committee and will depend

on the success of the Company coming out of the current COVID-19 crisis and the level of liquidity within the Company. At the date of signing of the Annual Report and Accounts no bonus has been paid.

Long-term Incentive Plan

As explained in the 2018 Annual Report and Accounts, the committee believes that an LTIP scheme should provide to Executive Directors and other senior managers the appropriate incentivisation, focus, retention and reward for achievement, that is aligned with shareholder interests. The last LTIP awards to Executive Directors were in 2014 and no further awards had been made thereafter. In late 2018 as part of the engagement of the new Executive Directors, the Committee agreed to the grant of Commencement and Performance Options as set out below to enable early engagement with the Executive Directors and their alignment with shareholders' interests. During 2019 the committee also developed and adopted a new equity-based incentive scheme, the 2019-2021 LTIP Scheme ("Scheme") which applies to all Velocys staff except Non-Executive Directors, with varying awards. The Scheme is intended to run for three years; it is subject to and is consistent with the LTIP rules agreed by the Board and approved by Shareholders in 2015. The Company made an initial award under the Scheme in December 2019, details of which are set out below.

As part of the process of developing the Executive Directors' remuneration packages and then developing the Scheme, as explained in the 2018 Annual Report and Accounts, the Committee undertook market research and took advice from external remuneration consultants, who confirmed that they believed the packages and the Scheme were fair and reasonable and in line with market practice. The Committee then consulted with major shareholders to seek their views before the Scheme was formally approved by the Board and adopted. Given the time necessary to agree the format and documentation and subject to an open period, no awards were made until December 2019.

All Options were granted subject to the Rules of the Velocys 2012 Share Option Scheme, the Company's Share Dealing Code and applicable law (including new GDPR terms and terms for Malus and Clawback). By way of clarification, the strike price, upon exercise, is payable by the employee so that the employee only gains if the share price rises. There are no nil-cost Options; this is understood by the Executive, senior management and staff who are fully committed to the principle of gain by delivering value.

Grants to Executive Directors

1. The two Executives were granted long term incentives by way of one–off grants of Options comprising of:
   a) A "**Commencement Award**" of 2,000,000 Options to each Executive Director at a strike price of 10p being the price at which new ordinary shares were issued during the fundraising in July 2018, notwithstanding the lower share price prevailing at the time of the award with vesting phased over 3 years from date of employment contract; and
   b) A "**Performance Award**" to focus them on high level, stretch performance of 2,000,000 Options to each Executive Director at a strike price of 15p being a fifty percent increase on the strike price that the Commencement Awards were made at, with vesting on the third or fourth anniversary of the grant subject to the performance condition, see page 33 for further information.

2. The Executive Directors were also eligible for annual 2019 awards under the Scheme. These awards comprised a mix of Options and EMI Options with a value equivalent to 75% of base salary and based on a strike price of 3p, being the price at which new ordinary shares were issued during the fundraising in July 2019, notwithstanding the lower share price prevailing at the time of the award. Vesting requirements for 2019 Scheme Options were based 50/50 as to elapsing of time and meeting a target share price performance; this was considered appropriate under the current circumstances of the Company. The number of Options awarded to each Executive Director and the vesting conditions are set out in the table on page 33.

Grants to other staff

Annual awards may be made by the Committee under the Scheme to the Executive Directors (reference item 2 above) and to the senior management with awards varied by grade level. Awards were made to senior management at the same time as to the Executive Directors in December 2019, at the same 3p strike price and on the same terms.

Furthermore, to bring all employees into the long term incentive programme, a one-off "**Special Award**" was granted to senior staff and non-Scheme participants (excluding the Executive Directors and Non-Executive Directors). Many of our employees have received no awards of Options since joining the Company. The Company values all of its employees and wishes to incentivise, focus, retain and reward them as well. The Special Award was granted at a strike price of 3p and vests rateably over three years from date of grant.

Headroom Calculations

The total of awards set out above together and the projected awards under the Scheme over its three year period represents a potential maximum dilution of current shareholders' interests of 15.1% taking into account historic awards outstanding (10.7%) and 2020-2022 LTIP (4.4%), based on issued capital at the time of the award. The Remuneration Committee believes the proposed Scheme is reasonable and necessary to compensate for the absence of a share scheme in recent years, and to motivate and retain expert staff who are essential to the success of Velocys over the crucial next three years. The Company continues to work well within its shareholder agreed headroom cap on awards of equity.

Pensions and other benefits

The Company contributes to Executives' defined contribution pension plans at 10% of base salary. For other employees the Company contributes to individuals' defined contribution pension plans in line with the Company-wide schemes in place. For UK-based employees, the Company contributions are 7% of base salary. For US-based employees, the contributions are 3% of pensionable pay (which includes bonus) up to the maximum allowable under US pensions law.

Directors' remuneration report (continued)

Other benefits provided are life insurance, private medical insurance and relocation allowances where applicable, in line with the Company's standard policies.

Directors' service contracts
Each of the Executive Directors has a service contract with a notice period of six months.

Remuneration policy for Non-Executive Directors
The remuneration of Non-Executive Directors is determined by the executive members of the Board in consultation with the Chairman, based on a benchmark review of current practices in similar companies. The Non-Executive Directors are paid a fixed fee and do not receive any pension payments, bonus or other benefits. The Chairman's salary is set by the Executive Directors in consultation with the remuneration committee. No director can be involved in the determination of his or her own remuneration.

Non-Executive Directors are appointed for an initial three-year term and are typically expected to serve for two three-year terms. Either the Non-Executive Director or the Company can terminate the contract with three months' written notice. The Chairman's appointment is on the same terms and the notice period is also three months. The Company may invite a Non-Executive Director to serve for further periods after the expiry of two three-year terms subject to a particularly rigorous review of performance and considering the need for progressive refreshing of the Board. Under the Company's Articles of Association, all directors are required to stand for re-election by shareholders on appointment and thereafter at least once every three years. However, in line with best practice, the Company has decided to put all Non-Executive Directors up for re-election at its Annual General Meeting ("AGM").

Fees paid to Non-Executive Directors
The aggregate amount of Non-Executive Directors' fees, as set out in the Company's Annual report and accounts for the years ended 31 December 2019 and 2018 is as follows.

	2019 £	2018 £
Aggregate fees paid to Chairman and Non-Executive Directors	219,079	154,195

Directors' remuneration (audited)
Aggregate emoluments for current and former directors in 2019 totalled £737,249 (2018: £212,605), and Company pension contributions were £54,832 (2018: £nil).

The directors who held office at 31 December 2019 received the following remuneration in relation to the year ended 31 December 2019, with the bonus paid in 2019 relating to performance in 2018.

	2019					2018				
Name of director	**Salary & fees £**	**Other benefits(5) £**	**Bonus £**	**Pension(6) £**	**Total £**	**Salary & fees £**	**Other benefits £**	**Bonus £**	**Pension £**	**Total £**
Executive										
Henrik Wareborn(1)	250,000	7,118	15,625	29,263	302,006	34,295	–	–	–	34,295
Andrew Morris(2)	225,000	6,365	14,062	25,569	270,996	65,810	–	–	–	65,810
Non-Executive										
Sandy Shaw(4)	50,000	–	–	–	50,000	40,500	–	–	–	40,500
Philip Holland(3)	51,418	–	–	–	51,418	–	–	–	–	–
Darran Messem(3)	50,000	–	–	–	50,000	–	–	–	–	–
Aggregate emoluments and pension contributions	626,418	13,483	29,687	54,832	724,420	140,605	–	–	–	140,605

(1) In 2018, the Salary and benefits for Mr. Wareborn was for the period 13 November 2018 to 31 December 2018.
(2) Aggregate salary & fees paid to Andrew Morris during 2018 includes an amount of £34,945 paid to him in his role as a Non-Executive Director in the period 1 January 2018 to 13 November 2018.
(3) Philip Holland and Darran Messem were appointed to the board on 1 January 2019.
(4) £4,000 was paid to SDC LNC Limited for providing additional services of Sandy Shaw during the management changeover in 2018. SDC LNC Limited is owned and operated by Sandy Shaw and this sum was paid in addition to her salary and fees shown above.
(5) Other Benefits include medical cover for Executive Directors.
(6) The amounts stated for pensions include proportionate amounts for 2018 paid in 2019 as the schemes were set up. Included in Henrik Wareborn's pension is £4,263 related to 2018. Included in Andrew Morris' pension is £3,069 related to 2018.

Directors' share options (audited)

Aggregate emoluments disclosed above include any amounts paid through the employee benefit trust ("EBT") in relation to share options exercised. In 2019 no such payments were made to serving or former directors (2018: nil).

Details of all directors' shareholdings are disclosed on page 28 in the Directors' report.

Details of options held by the directors at 31 December 2019 are as follows.

Name of Director	At 31 December 2018	Granted	Exercised	Lapsed	At 31 December 2019	Exercise price (£)	Earliest date of exercise	Date of expiry	Exercisable at 31 December 2019
Henrik Wareborn									
Commencement	–	2,000,000	–	–	2,000,000	10.00p	13/12/19	12/12/29	1,333,333
Performance	–	2,000,000	–	–	2,000,000	15.00p	31/12/21	12/12/29	–
LTIP 2019 – performance	–	3,125,000	–	–	3,125,000	3.00p	13/12/22	12/12/29	–
LTIP 2019 – time	–	3,125,000	–	–	3,125,000	3.00p	13/12/22	12/12/29	–
Subtotal	–	10,250,000	–	–	10,250,000				
Andrew Morris									
Commencement	–	2,000,000	–	–	2,000,000	10.00p	13/12/19	12/12/29	1,333,333
Performance	–	2,000,000	–	–	2,000,000	15.00p	31/12/21	12/12/29	–
LTIP 2019 – performance	–	2,812,500	–	–	2,812,500	3.00p	13/12/22	12/12/29	–
LTIP 2019 – time	–	2,812,500	–	–	2,812,500	3.00p	13/12/22	12/12/29	–
Subtotal	–	9,625,000	–	–	9,625,000				
Total	–	19,875,000	–	–	19,875,000	–	–	–	–

No options were exercised by acting directors during 2019. The total charge for share-based payments during the year in respect of directors was £23,000.

2019 option grants:

Commencement Awards. In connection with the commencement of service of Mr. Wareborn and Mr. Morris, it was agreed to award 2,000,000 share options with an effective date of grant at the date of the services agreement, two-thirds of the Options vested on the effective date of grant 13th December 2019. The balance of the Options vest on 4th December 2020. The exercise price of the awards is 10 pence and the last date for exercise is the day immediately preceding the tenth anniversary of the date of grant.

Performance Awards. In connection with the commencement of service of Mr. Wareborn and Mr. Morris, each was awarded 2,000,000 performance based awards. These awards vest and become exercisable at either (i) 31 December 2021 if the target conditions are met or (ii) 31 December 2022 if the target conditions are not met by 31 December 2021 but are met within the calendar year 2022. The target condition is that for any 15 consecutive dealing days leading up to the vesting date the weighted average share price of the Velocys shares on each of these days is equal to or more than 15 pence or for any 45 consecutive days in the six month period leading up to 31 December 2021 the weighted average share price of a share over the 45-day period is equal to or more than 15 pence. The exercise price is 15 pence.

2019-2021 LTIP Scheme ("Scheme")

The Executives were awarded a single award based on 75% of base salary under this Scheme split equally into time-based and performance awards. Under the Scheme, Mr. Wareborn and Mr. Morris were awarded 3,125,000 and 2,812,500 time-based share options, respectively, on the 13th December 2019 these options vest and become exercisable on the third anniversary of the date of grant. The exercise price of the awards is 3 pence and the last date for exercise is the day immediately preceding the tenth anniversary of the date of grant.

In addition, Mr. Wareborn and Mr. Morris were awarded 3,125,000 and 2,812,500 performance based share options, respectively, on the 13th December 2019 under the Scheme, these awards vest and become exercisable in full on the third anniversary of the date of grant provided the weighted average share price of a share for the month preceding that third anniversary is at least 4.5 pence. The exercise price of these awards is 3 pence.

Directors' remuneration report (continued)

Former directors (audited)
The directors listed below, who were members of the Board at 1 January 2019 and resigned during the year, received the following remuneration.

	2019					2018				
Name of director	**Salary & fees £**	**Other Benefits £**	**Bonus £**	**Pension £**	**Total £**	**Salary & fees £**	**Other benefits £**	**Bonus £**	**Pension £**	**Total £**
Non-Executive										
Pierre Jungels	67,661	–	–	–	67,661	72,000	–	–	–	72,000
Aggregate emoluments and pension contributions	67,661	–	–	–	67,661	72,000	–	–	–	72,000

Pierre Jungels resigned on 10 December 2019.

Share price
The market price of the parent company's shares as at 31 December 2019 was 1.785p (2018: 4.845p) and the range during the year was 1.17p to 5.24p (2018: 3.8p to 31p). Details of options and the cost of share-based payments are given in note 15.

Approved by the Board and signed on its behalf by:

Sandy Shaw
Non-Executive Director and Chair of the Remuneration Committee
5 August 2020

Statement of directors' responsibilities

in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards ("IFRS"s) as adopted by the European Union and parent company financial statements in accordance with IFRSs as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group and parent company for that period. In preparing the financial statements, the directors are required to:

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

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

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

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

Directors Confirmation
The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and parent company's position and performance, business model and strategy.

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

On behalf of the Board

Henrik Wareborn
Chief Executive Officer
5 August 2020

Independent auditors' report to the members of Velocys plc
Report on the audit of the financial statements

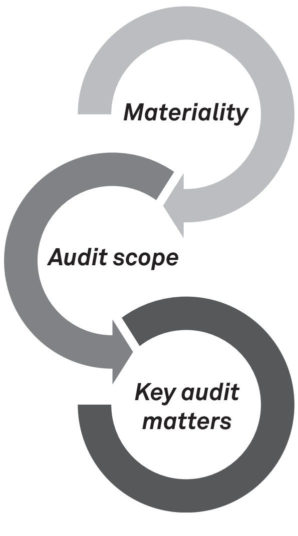
Opinion
In our opinion, Velocys plc's Company consolidated financial statements (which cover the group comprising Velocys plc and its subsidiaries) and Velocys plc's parent company financial statements (the "financial statements"):
- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2019 and of the group's loss and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and accounts 2019 (the "Annual Report"), which comprise: the consolidated and Velocys plc statements of financial position as at 31 December 2019; the consolidated income statement and consolidated statement of comprehensive income, the consolidated and Velocys plc statements of cash flows, and the consolidated and Velocys plc's statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

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

Our audit approach
Overview



- Overall group materiality: £0.5 million (2018: £1.0 million), based on 5.0% of loss before tax, before exceptional items.
- Overall company materiality: £107,600 (2018: £147,000), based on 0.9% of total assets.

- We identified two financially significant components which were subject to full scope audits.
- We performed a full scope audit over the significant components Velocys plc and Velocys Inc as well as Velocys Technology Limited for statutory reporting purposes.
- We performed specified audit procedures at two further components to address specific risk characteristics or to provide sufficient overall coverage of particular financial statement line items.
- All audit work was performed by the group engagement team.
- Components where we performed audit procedures accounted for 94% of group loss before tax and 99% of Velocys plc total assets.

- Valuation of assets for Company consolidated (group) and investment in subsidiaries for Velocys plc (parent company).
- COVID-19 (group and parent company)

The scope of our audit
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of assets for the group and investments in subsidiaries for Velocys plc (parent company)	
The carrying value of the group's intangible assets is £0.4m (2018: £0.4m) and net assets are £2.3m (2018: £5.4m). The carrying value of Velocys plc's investments in subsidiaries is £9.1m following an impairment loss of £3.3m recorded in the year (2018: £2.0m). The group's intangible assets and Velocys plc's investments in subsidiaries are subject to impairment testing at least annually or more frequently if events or changes in circumstances indicate the carrying value may not be recoverable. In assessing whether there was any indication of impairment, management considered any changes in operations and compared the carrying amount of the group's and Velocys plc's net assets to Velocys plc's market capitalisation. For the assessment of the recoverable amount of the group's and Velocys plc's assets, the recoverable amount was determined for the cash generating unit ('CGU') to which these assets belong. The group and Velocys plc has one CGU. The recoverable amount of the CGU was determined based on its fair value less costs of disposal ('fair value'), using Velocys plc's market capitalisation. IAS 36 also requires that the group assess at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. Management considered the operational performance in 2019 to contain no clear favourable events or changes in circumstances that would indicate the impairment loss no longer exists or has increased. Management have also considered the market capitalisation. The market capitalisation at 31 December 2019 was £11.5m (2018: £19.9m). Post year end the share price increased to a high of 14.5p in June 2020 and fluctuated to a low of 1.7p in March 2020. Based on a market capitalisation of £11.5m in comparison to the net assets of the group at 31 December 2019 of £2.3m there is not considered to be an impairment at that date. The investment in subsidiaries recorded in Velocys plc's financial statements has been impaired by £3.3m based on the market capitalisation of £11.5m. This writes down the net assets of Velocys plc being equal to the market capitalisation at 31 December 2019. Our audit focused on the risk that the carrying value of the group's assets and Velocys plc's investments in subsidiaries could be overstated and further impairments could be necessary as well as considering if there were any indicators that the previous impairment may be reversed.	We assessed the level at which impairment testing was performed. Based on our knowledge of the business, including the use of assets and internal reporting, we agreed with management's judgement that, for the assessment of the recoverable amount of the group's assets, the group has one CGU. We evaluated management's approach to calculating the CGU's recoverable amount, based on its fair value, using Velocys plc's market capitalisation. Management's assessment considered the market capitalisation at 31 December 2019 and post year end up to the date of this report. We concluded that the application of this market approach was appropriate. We tested the accuracy of the impairment loss calculated for the investment in subsidiaries, by comparing the carrying value of assets with their recoverable amount. We did not identify any material exceptions in these tests. We also assessed the group's and Velocys plc's disclosures regarding the significant accounting judgements in assessing the impairment required. We consider that these disclosures appropriately draw attention to the significant areas of judgement that support management's conclusion.

Independent auditors' report to the members of Velocys plc
(continued)

Key audit matter	How our audit addressed the key audit matter
COVID-19	
The impact of COVID-19 on the group includes both the wider impact to the global economy (the air travel and oil and gas industries are key stakeholders), and the direct impact on slowing operations. Following the social distancing policy implemented in both the UK and the US, the group has also had to temporarily close offices and sites in Oxford, Houston and Plain City and put in place a work from home policy. Management consider that whilst this has impacted productivity, operations and progress continues to be made in all aspects of the business. Despite the wider economic challenges Velocys raised gross proceeds of just under £21 million in June 2020 by way of new ordinary shares issued to retail and institutional investors including Directors and other investors at a price of 5 pence per share. Our audit focussed on the extent of the impact both to the group's near-term liquidity, its basis of preparation as a going concern and the associated disclosures.	We evaluated the process used and tested the mathematical accuracy of the models used by management in their assessment. We evaluated management's assumptions in respect of downside scenarios in the cash flow forecast, in particular cash inflows from customers and the ability to receive strategic funding following the impact on the airline and oil and gas industries. We agreed the fundraise (July 2020) cash inflows to the bank statement and reviewed the relevant commission/fee documents to ensure that the fund raise amount included within the cash flow forecast is net of all expenses. We have reviewed post year customer cash receipts and project funding. We performed sensitivities over the group's cash flow forecasts taking account of reasonably possible adverse effects that could arise from COVID-19 both individually and collectively. The impact of COVID-19 has negatively impacted operations but management have been able to secure financial support from the US government post year end including a £0.6m loan. We assessed the transparency and reasonableness of the going concern disclosure and considered these to be adequate. Overall, we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, this is not a guarantee as to the Consolidated Company (group) or Velocys plc's (parent company) ability to continue as a going concern.

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

Materiality

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

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

	Company consolidated (group) financial statements	Velocys plc (company only) financial statements
Overall materiality	**£0.5 million (2018: £1.0 million).**	**£107,600 (2018: £147,000).**
How we determined it	5.0% of loss before tax, before exceptional items.	0.9% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, loss before tax before exceptional items, is the primary measure used by the members in assessing the financial performance of the group. We consider it appropriate to eliminate exceptional items, which are considered non-recurring, to preserve the link between materiality and the underlying performance of the group.	We believe that total assets is the primary measure used by the shareholders in assessing the performance and position of the entity and reflects the Velocys plc's principal activity as a holding company.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £107,600 and £498,977. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £25,950 (group audit) (2018: £49,000) and £5,380 (company audit) (2018: £7,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Velocys plc
(continued)

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit
Responsibilities of the directors for the financial statements
As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 35, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Other required reporting

Companies Act 2006 exception reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Gareth Murfitt
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
5 August 2020

Financial Statements

Consolidated income statement

for the year ended 31 December 2019

	Note	**2019 £'000** Before exceptional items	**2019 £'000** Exceptional items (note 4)	**2019 £'000** Total	2018 £'000 Before exceptional items	2018 £'000 Exceptional items (note 4)	2018 £'000 Total
Revenue	6	332	–	332	664	–	664
Cost of sales		(132)	–	(132)	(273)	–	(273)
Gross profit		200	–	200	391	–	391
Administrative expenses	10	(9,898)	94	(9,804)	(19,060)	(10,067)	(29,127)
Other income	9	79	–	79	36	–	36
Operating loss		(9,619)	94	(9,525)	(18,633)	(10,067)	(28,700)
Share of loss of investments accounted for using the equity method	20	–	–	–	(1,717)	(848)	(2,565)
Loss before net finance (costs)/income		(9,619)	94	(9,525)	(20,350)	(10,915)	(31,265)
Finance income	7	48	–	48	993	–	993
Finance costs	8	(429)	–	(429)	(628)	–	(628)
Net finance (cost)/income		(381)	–	(381)	365	–	365
Loss before income tax		(10,000)	94	(9,906)	(19,985)	(10,915)	(30,900)
Income tax credit	13	291	–	291	317	–	317
Loss for the financial year attributable to the owners of Velocys plc		(9,709)	94	(9,615)	(19,668)	(10,915)	(30,583)
Loss per share attributable to the owners of Velocys plc							
Basic and diluted loss per share (pence)	16	(1.91)	–	(1.90)	(5.75)	–	(8.95)

The notes on pages 47 to 75 are part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2019

	2019 £'000	2019 £'000	2019 £'000	2018 £'000	2018 £'000	2018 £'000
	Before exceptional items	Exceptional items (note 4)	Total	Before exceptional items	Exceptional items (note 4)	Total
Loss for the year	(9,709)	94	(9,615)	(19,668)	(10,915)	(30,583)
Other comprehensive (expense)/income						
Items that may be reclassified to the income statement in subsequent periods						
Foreign currency translation differences	(262)	–	(262)	897	–	897
Total comprehensive expense for the year attributable to the owners of Velocys plc	(9,971)	94	(9,877)	(18,771)	(10,915)	(29,686)

The notes on pages 47 to 75 are part of these consolidated financial statements.

Consolidated statement of financial position

as at 31 December 2019

	Note	**2019** **£'000**	(Restated) 2018 £'000
Assets			
Non-current assets			
Intangible assets	17	444	357
Property, plant and equipment	18	1,734	1,819
Right-of-use asset	19	836	–
Trade and other receivables	21	–	281
		3,014	2,457
Current assets			
Inventories	22	3,332	1,438
Trade and other receivables	21	1,637	4,404
Current income tax asset		648	862
Cash and cash equivalents	23	4,797	6,964
		10,414	13,668
Total assets		13,428	16,125
Liabilities			
Current liabilities			
Trade and other payables	24	(1,331)	(3,018)
Lease liability	19	(581)	–
Borrowings		–	(289)
Other liabilities	29	(2,804)	(2,092)
Deferred revenue	30	(5,562)	(579)
		(10,278)	(5,978)
Non-current liabilities			
Trade and other payables	25	–	(90)
Lease lability	19	(343)	–
Deferred revenue	30	(470)	(4,634)
		(813)	(4,724)
Total liabilities		(11,091)	(10,702)
Net assets		2,337	5,423
Capital and reserves attributable to owners of Velocys plc			
Called up share capital	27	6,438	4,105
Share premium account	27	184,256	180,016
Merger reserve		369	369
Share-based payments reserve		16,225	16,143
Foreign exchange reserve		3,289	3,551
Accumulated losses		(208,240)	(198,761)
Total equity		2,337	5,423

The notes on pages 47 to 75 are part of these consolidated financial statements.

The presentation of called up share capital and share premium in the period 31 December 2018 has been restated with respect to a calculation error in the amount of £2,192,000. The restatement resulted in an increase in called up share capital and a decrease in share premium. Prior to the restatement, at 31 December 2018 called up share capital was £1,913,000 and share premium was £182,208,000. See note 27 for further information.

The financial statements on pages 42 to 75 were approved by the Board of directors and authorised for issue on 5 August 2020. They were signed on its behalf by:

Henrik Wareborn
Chief Executive Officer

Company number 05712187

Consolidated statement of changes in equity

for the year ended 31 December 2019

	Note	Called up share capital (Restated) £'000	Share premium account (Restated) £'000	Merger reserve £'000	Convertible loan/ 'other' reserve £'000	Share-based payment reserve £'000	Foreign exchange reserve £'000	Accumu-lated losses £'000	Total equity £'000
Balance at 1 January 2018		1,468	149,964	369	9,421	16,085	2,654	(167,550)	12,411
Loss for the year		–	–	–	–	–	–	(30,583)	(30,583)
Other comprehensive income									
Foreign currency translation differences		–	–	–	–	–	897	–	897
Total comprehensive expense		–	–	–	–	–	897	(30,583)	(29,686)
Transactions with owners									
Share-based payments – value of employee services	15	–	–	–	–	58	–	–	58
Proceeds from share issues	27	2,435	20,205	–	–	–	–	–	22,640
Convertible loan notes	27	180	8,820	–	(9,000)	–	–	–	–
Interest on convertible loan note	27	22	1,027	–	(421)	–	–	(628)	–
Total transactions with owners		2,637	30,052	–	(9,421)	58	–	(628)	22,698
Balance at 31 December 2018		**4,105**	**180,016**	**369**	**–**	**16,143**	**3,551**	**(198,761)**	**5,423**
Change in accounting policy	2	–	–	–	–	–	–	136	136
Balance at 1 January 2019		**4,105**	**180,016**	**369**	**–**	**16,143**	**3,551**	**(198,625)**	**5,559**
Loss for the year		–	–	–	–	–	–	(9,615)	(9,615)
Other comprehensive expense									
Foreign currency translation differences		–	–	–	–	–	(262)	–	(262)
Total comprehensive expense		–	–	–	–	–	(262)	(9,615)	(9,877)
Transactions with owners									
Share-based payments – value of employee services	15	–	–	–	–	82	–	–	82
Proceeds from share issues	27	2,333	4,240	–	–	–	–	–	6,573
Total transactions with owners		2,333	4,240	–	–	82	–	–	6,655
Balance at 31 December 2019		6,438	184,256	369	–	16,225	3,289	(208,240)	2,337

The notes on pages 47 to 75 are part of these consolidated financial statements.

The presentation of called up share capital and share premium in the period 31 December 2018 has been restated with respect to a calculation error in the amount of £2,192,000. The restatement resulted in an increase in called up share capital and a decrease in share premium. Prior to the restatement, at 31 December 2018 called up share capital was £1,913,000 and share premium was £182,208,000. See note 27 for further information.

Consolidated statement of cash flows

for the year ended 31 December 2019

	Note	**2019 £'000**	2018 £'000
Cash flows from operating activities			
Operating loss		(9,525)	(28,700)
Depreciation and amortisation		1,094	659
Loss on disposal of intangible assets	17	187	627
Impairment of property, plant and equipment	4	439	–
Impairment of loan to associate ENVIA	4	–	10,067
Finance costs	8	(196)	–
Impairment of inventory	22	569	–
Share-based payments		82	58
Changes in working capital (excluding the effects of exchange differences on consolidation)			
Trade and other receivables		(165)	(220)
Trade and other payables		(1,687)	(1,125)
Other liabilities		712	2,092
Deferred revenue	30	819	5,213
Inventory		(2,473)	(1,050)
Cash consumed by operations		(10,144)	(12,379)
Tax credits received		736	–
Net cash used in operating activities		(9,408)	(12,379)
Cash flows from investing activities			
Purchase of property, plant and equipment		(779)	(509)
Purchase of intangible assets		(394)	(349)
Payment from (loan to) associate ENVIA		3,432	(5,531)
Interest received		33	74
Net cash generated from/(used in) investing activities		2,292	(6,315)
Cash flows from financing activities			
Proceeds from issues of shares and convertible loan notes	27	7,000	25,172
Costs of issuing shares and convertible loan notes		(427)	(1,904)
Principal elements of lease payments	19	(479)	–
Interest paid		(5)	(13)
Repayment of borrowings		(371)	(252)
Net cash generated from financing activities		5,718	23,003
Net (decrease)/increase in cash and cash equivalents		(1,398)	4,309
Cash and cash equivalents at beginning of year	23	6,964	2,070
Exchange movements on cash and cash equivalents		(769)	585
Cash and cash equivalents at end of year	23	4,797	6,964

The notes on pages 47 to 75 are part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General information

Velocys plc is a company incorporated in England and Wales and domiciled in England. It operates through a number of subsidiaries in the UK and the US, and collectively they are referred to in the financial statements as the "Company" or "Velocys", with Velocys plc as "Velocys plc" or the "parent company". The nature of the Company's operations and its principal activities are set out in the Strategic report on pages 4 to 17. The parent company financial statements are included on pages 76 to 86 The parent company's securities are traded on the Alternative Investment Market ("AIM") of The London Stock Exchange under the symbol "VLS".

2. Accounting policies

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

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU, hereafter referred to as "IFRS"), IFRS Interpretations Committee ("IFRS IC") Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value, where relevant.

The preparation of financial statements to conform to IFRS requires the use of certain critical accounting estimates and the exercise of management's judgement in the application of the Company's accounting policies. Areas involving a higher degree of judgement or complexity, and areas where assumptions and estimates are significant to the financial statements are referenced in note 3.

Going concern

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

The Company expects to develop its reference projects, in particular, the Mississippi Biorefinery Project and Altalto Immingham Project, which will require significant development and capital expenditure.

The nature of the Company's 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 twelve months from the date of approval of the financial statements.

During July 2020 the Company raised £21 million (before expenses) by way of a Placing, Retail Offer and Open Offer. The directors consider that this is sufficient funding for the Company to continue as a going concern beyond the twelve months of the date of this report. The directors do not anticipate that any further funding to the Company will come from further placing of the parent company shares during this period. However additional income may come from one, or a combination of, the following sources, with agreements being actively sought from third parties:

- Additional third-party license sales, similar to the Red Rock Biofuels project.
- The realisation of certain assets and the selling of non-core intellectual property.
- Additional strategic investment of development capital into either or both of Altalto Immingham Project and the Mississippi Biorefinery Project, which are expected during 2020 and the first half of 2021.
- UK or USA Government loans or grants.

The directors are confident that the funding received by the Company in July 2020 will ensure that it will continue as a going concern and that there will be sufficient funding in the Company to continue to support its activities for the foreseeable future being not less than twelve months from the date of approval of these financial statements. The directors have therefore prepared the financial statements on a going concern basis.

In addition to the July 2020 Placing, Retail Offer and Open Offer, the Company executed an extension of the Altalto Joint Development Agreement providing £1m non-dilutive investment into the Altalto Immingham Project; was awarded a forgivable loan as part of the Pay-check Protection Program awarded by the SBA, a US Federal Agency in the amount of £572,000; and has been awarded a further £0.5m F4C grant from the Department of Transport in the UK (see the Director's Report on page 25 for more information).

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

Accounting developments

New and amended standards adopted by the Company

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- IFRS 16 "*Leases*" – ("IFRS 16")
- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28

Notes to the consolidated financial statements (continued)

2. Accounting policies (continued)
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

The group also elected to adopt the following amendments early:
- Definition of Material – Amendments to IAS 1 and IAS 8.

IFRS 16 *Leases*
The Company has adopted IFRS 16 retrospectively on 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Company recognised lease assets and current and non-current lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was approximately 21%.

Significant judgements and estimates were used with respect to the incremental borrowing rate, as the Company currently has no outstanding significant debt. Also, significant judgement and estimates were used in the calculation of lease term as some leases are expected to be extended beyond the stated lease term.

Practical expedients applied
In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:
- applying a single discount rate to a portfolio of leases with reasonably similar characteristics,
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019,
- accounting for operating leases with a remaining lease term of less than twelve months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and Interpretation 4 Determining Whether an Arrangement contains a Lease.

Measurement of lease liability

	£'000
Operating lease commitments disclosed as at 31 December 2018	1,314
Discount based on incremental borrowing rate at 1 January 2019	(234)
(Less): short term/low value leases recognised on a straight line basis as expense	(42)
Lease liability recognised as at 1 January 2019	1,038
Of which are:	
Current liabilities	409
Non-current liabilities	629
	1,038

Measurement of right-of-use assets
The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Adjustments recognised in the balance sheet on 1 January 2019
The change in accounting policy affected the following items in the balance sheet on 1 January 2019:
- Right-of-use asset – increase by £1,038,000
- Lease liabilities – increase by £1,038,000
- Accrued Rent – decrease by £88,000

The net impact on retained earnings on 1 January 2019 was an increase of £88,000.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Financial risk management policies

Financial risk management policies are set out in the Strategic report on pages 12 and 13, and in note 26.

Capital management policies

Capital management policies are set out in note 26.

Significant accounting policies

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of Velocys plc's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in sterling (£). It should be noted that the functional currency for Velocys plc is GBP as Velocys plc is traded on the AIM market and is head quartered in the UK. Currently all new equity based fund raises are completed in the UK and made in GBP.

Transactions and balances

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

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

Entities within Velocys

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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

3. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Although these estimates and judgements are based on management's best knowledge of the amount and/or timing, actual results ultimately may differ. These estimates and judgements are regularly reviewed and revised as necessary. The areas that involve a higher degree of judgement or complexity, or that have the most significant effect on the amounts included in these consolidated financial statements are listed below and described in the relevant note. Please see the notes referenced below for the details associated with the critical accounting estimates and judgements.

	Note
Items involving a critical estimate	
IFRS 16 critical estimates	19
Share-based payments	15
Other receivables – impairment assessment under IFRS 9	20
Items involving a judgement	
Revenue recognition under IFRS 15	6 and 29
Share-based payments	15
Intangible assets – impairment assessment	17

Notes to the consolidated financial statements (continued)

4. Exceptional items

Items that are significant by virtue of their size or nature, which are considered non-recurring and which are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Company are classified as exceptional operating items. Exceptional operating items are included within the appropriate Consolidated income statement category but are highlighted separately in the notes to the financial statements.

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

	2019 £'000	2018 £'000
Administrative expenses:		
Property, plant and equipment impairment	(439)	–
Recovery/(impairment) of loan to associate ENVIA	533	(10,067)
	94	(10,067)
Impairment in carrying value of equity accounted associate	–	(848)
	–	(848)
Total	94	(10,915)

Administrative expenses

Property, plant and equipment impairment – in 2019, the Company made an impairment of £439,000 (2018: £nil) for the land associated with a subsidiary based on a current valuation appraisal by a third party expert. The value of the land either for development or for a sale of the land determined a lesser value than was held as an asset. As a result of the third party's appraisal, the Company determine that the land required an impairment.

Recovery/(impairment) of secured loan to ENVIA – In 2019 the Company released deferred revenue in the amount of £533,000 in final settlement of the ENVIA loan receivable balance representing a recovery on the impairment recorded in 2018.

Impairment in carrying value of equity accounted associate – the Company is required to assess, at the end of each reporting period, whether there is any indication that an asset may be impaired. Given the investment was fully impaired in the prior year there were no further impairment considerations. Management also assessed and confirmed that a write back of the prior year impairment is not appropriate, given operations at ENVIA ceased in 2018. In 2018 the Company recorded an impairment of its investment in associate in the amount of £848,000.

5. Segmental information

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

The Executive management team considers that the business comprises a single activity, which is the design, development, marketing and sale of technology for the production of sustainable transport fuels. This includes facilitating project development by putting together partnerships with technology licensors, engineers, feedstock suppliers, offtakers and financing entities. The Executive management team reviews the Company's profit or loss and its cash flows, assets and liabilities on a Company-wide basis. In carrying out these reviews, the Executive management team considers all material items of income and expenditure that are directly attributable to individual commercial projects and development programmes. The internal management reports do allocate assets and liabilities or shared overheads to individual products or projects.

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

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

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

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

	2019 £'000	2018 £'000
Americas	66	652
Asia Pacific	266	12
Total revenue	332	664

Revenues during the year originated predominantly from Japan relating to sale of equipment in the Asia Pacific region, with professional services revenue from feasibility studies in the Americas.

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

	2019 £'000	2018 £'000
Customer 1	266	508
Customer 2	44	144
Customers less than 10%	22	12
Total revenue	332	664

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

	2019 £'000	2018 £'000
Intangible assets	347	175
Property, plant and equipment	1,627	1,701
Right-of-use asset	751	–
Trade and other receivables	–	281
Total	2,725	2,157

All other non-current assets were held in the United Kingdom and amounted to £289,000 (2018: £223,000).

6. Revenue

The Company adopted IFRS 15 on 1 January 2018, using the full retrospective transition method. The Company generates revenue through contracts in which it (i) sells Fischer-Tropsch reactors, (ii) sells Fischer-Tropsch 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 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 catalyst will be recognised as the performance obligations are satisfied. Revenue from engineering services is earned on a time and materials basis and is recognised as the work is performed provided that it does not relate to the sale of equipment and therefore is bound by the performance obligations of that sale.

If the entity is providing a single performance obligation in the form of an integrated set of activities, each contract is assessed to determine if it meets the criteria for recognition over time. This would require the contract to either transfer control of the combined output over time or for the entity to have an enforceable right of payment for the performance completed to date for activities that do not create an asset with alternative use. One contract that was signed in 2018 but delivery was started in 2019 and will be completed in 2020 has been assessed as a combined performance obligation and it was determined that none of these criteria have been met as at the year end. As such, all consideration received has been deferred and revenue will be recognised when the project performance obligations have been met.

Critical estimates and judgements

Determining whether the goods or services provided are considered distinct performance obligations from the supply of equipment can require significant judgment. The Company's agreements, in some instances, could have a single performance obligation, which would result in the deferral of revenue until the performance obligation is satisfied. This is the case when the entity promises an integrated package of goods and services and where the customer is receiving a combined output (for example, an engineering service that results in operational technology at a particular site). In other instances, there will be no integration service and each good or service will be considered separately.

Notes to the consolidated financial statements (continued)

6. Revenue (continued)

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

	2019 £'000	2018 £'000
FT reactor, catalyst and licence	273	508
Engineering services	59	156
Total	332	664

FT reactor, catalyst and license revenue in the amount of £273,000 for the year ended December 31, 2019 consisted principally the sale of substacks to a customer in Japan in the Asia Pacific region (2018: £508,000).

7. Finance income

	2019 £'000	2018 £'000
Interest income on bank deposits	48	76
Interest on loan to associate	–	732
Foreign exchange gains	–	185
Total	48	993

In 2018, the Company stopped recognising interest on loan to associate as a result of the impairment of the investment in ENVIA (see Notes 20 and 21 for further information).

8. Finance costs

	2019 £'000	2018 £'000
Interest on lease liabilities	196	–
Interest on borrowings	4	628
Foreign exchange losses	229	–
Total	429	628

Interest on leases is the interest associated with the adoption of IFRS 16 in 2019. Included in interest on borrowing in 2018 is the interest associated with the convertible loan note and other loans.

9. Other income

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

	2019 £'000	2018 £'000
Return on deposits	–	22
Sale of fixed assets	79	14
Total	79	36

10. Expenses by nature

	2019 £'000	2018 £'000
Employee benefit expense (see note 12)	3,332	6,282
Sub-contractor and consultant costs	2,967	3,888
Depreciation of property, plant and equipment (note 18)	568	581
Amortisation of intangible assets (note 17)	112	96
Depreciation of right-of-use asset (note 19)	414	–
Lease expense	–	470
Patent and other IP costs	89	88
Other direct and administrative costs	937	735
Services	560	5,041
Legal	450	720
Travel	469	958
Other expenses	–	201
Total administrative expenses before exceptional items	9,898	19,060
Exceptional items (note 4)	(94)	10,067
Total administrative expenses	9,804	29,127

Included in administrative expenses were research and development costs of £1,174,000 (2018: £1,849,000). The decrease in research and development costs is the result of the Company's change of focus to developing projects thereby reducing the emphasis on research. The reduction of services in 2019 has occurred because the US project expenses were significantly reduced at the end of 2018 by the new management of the Company, whilst the project was reworked with a solar power source and CO_2 capture and storage.

11. Auditor's remuneration

	2019 £'000	2018 £'000
Payable to PricewaterhouseCoopers LLP and its associates:		
For the audit of the parent company and consolidated financial statements in respect of the current year	158	100
For the audit of the parent company and consolidated financial statements in respect of the prior year	54	44
For the audit of the financial statements of subsidiaries of the parent company in respect of the current year	35	25
For the audit of the financial statements of subsidiaries of the parent company in respect of the prior year	12	12
Other services:		
Audit-related assurance services	–	7
Total	259	188

12. Employee benefit expense

Short-term employee benefits

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

Pensions

The Company operates various defined contribution pension schemes for its employees. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefit derived from the current and prior periods.

The amount charged to the Income statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable and contributions actually paid are accrued. The Company has no further payment obligations once the contributions have been paid.

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

	2019 number	2018 number
Research, design and development	15	21
Administration	18	18
Total average headcount	33	39

Notes to the consolidated financial statements (continued)

12. Employee benefit expense (continued)
Their aggregate remuneration comprised the following items.

	2019 £'000	2018 £'000
Wages and salaries	4,360	5,053
Social security costs	286	349
Other pension costs	188	433
Severance expense	138	389
Share-based payments granted to directors and employees (note 15)	82	58
Total remuneration before capitalisation of wages and salaries	5,054	6,282
Capitalisation of wages and salaries	(1,722)	–
Total remuneration	3,332	6,282

The capitalisation of wages and salaries relates to employees who manufacture the reactors associated with one of the company's contracts. In addition, capitalisation on of wages and salaries, include those related to the Altalto project, are offset against Other liabilities. No redundancies were made during 2019. Severance in the amount of £138,000 in 2019 and £39,000 in 2018 was paid to a former director, who resigned in December 2018. During 2017 the decision to scale down R&D activities was taken resulting in some final redundancy payments, including payments in lieu of notice and holiday totalling £389,000 in 2018.

Details of directors' remuneration are given in the audited information in the Directors' remuneration report on pages 24 to 26, which forms part of these financial statements.

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

	2019 £'000	2018 £'000
Current tax:		
R&D tax credit relating to prior years	247	133
R&D tax credit relating to current year	(538)	(450)
Current tax total	(291)	(317)
Income tax total	(291)	(317)

Due to the availability of losses incurred in the year, there is no charge to corporation tax. The Company recognised £291,000 for R&D tax credits (2018: £317,000). The credit relating to the current year is on an accruals basis, which is an estimate of the amount to be claimed from HMRC based on the activity level and significant R&D costs of the current year compared to previous years. The debit relating to prior years is the difference between the brought forward accrual and the settlement from HMRC.

The accrual for the current year, which is the majority of the credit, is based on an assessment of the Company's projects, to determine which ones qualify under HMRC's rules, and to estimate the level of allowable cost within each, based on the nature of costs.

The actual tax credit for the current and previous year is lower (2018: lower) than the theoretical amount that would arise using the weighted average tax rate applicable to the results of the consolidated entities, for the reasons set out in the following reconciliation.

	2019 £'000	2018 £'000
Loss before income tax after exceptional items	(9,906)	(30,900)
Tax calculated at domestic tax rates applicable to losses in the respective countries	(1,882)	(5,779)
Tax effects of:		
Expenses not deductible for tax purposes	72	215
Impairment loss not deductible for tax purposes	–	2,292
Unutilised tax losses for which no deferred tax asset is recognised	1,811	3,272
R&D tax credit	(291)	(317)
Income tax total	(291)	(317)

In the table, Impairment loss not deductible for tax purposes, in both 2019 and 2018, removes the tax impact of the In-process technology and Goodwill impairments. Goodwill created from a stock purchase such as that of Velocys Inc.is not deductible for US tax purposes. Goodwill created from purchasing the assets of the Company (such as Velocys Project Solutions LLC) is tax deductible.

The weighted average applicable tax rate was 21% (2018: 21%).

In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the UK corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 17% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. Unrecognised UK deferred tax balances have been measured at 17% (recognised: £nil).

In December 2017 the US Congress voted to reduce the tax rate to 21%. Unrecognised US deferred tax balances have been measured at 21% (recognised: £nil).

14. Deferred tax

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

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

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

	2019 £'000	2018 £'000
Unrecognised		
Deferred tax assets		
Trading losses	(27,116)	(37,418)
Total	(27,116)	(37,418)

At 31 December 2019, the Company had a net unrecognised deferred tax asset of £27,116,000 (2018: £37,418,000) arising from trading losses since incorporation. No recognition (2018: £nil) of the net deferred tax asset has been made at 31 December 2019 on the grounds of uncertainty over its recoverability in light of the Company's nascent revenue streams and commitment to continued investment in the development of its biorefineries, and therefore there is no impact on the current or prior year income statement.

Of this unrecognised deferred tax asset £10,663,000 (2018: £19,306,000) is anticipated to remain available indefinitely to offset against future taxable trading profits of the entities in which the losses arose. The remainder has expiry dates between 2025 and 2039 (2018: 2024 and 2038).

15. Share-based payments

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

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

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

At the end of each reporting period, for awards not containing a market condition the Company revises its estimates of the number of options that are expected to vest, based on historical satisfaction of non-market vesting and service conditions. It recognises the

Notes to the consolidated financial statements (continued)

15. Share-based payments (continued)
impact of the revision to original estimates in the Income statement, recorded in Administrative expenses, with a corresponding adjustment to equity.

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

The number of options outstanding at 31 December 2019 and the expense recognised in the profit or loss for these schemes, along with bonus shares and other schemes, are as follows.

	2019		2018	
Scheme	Options outstanding	Income statement £'000	Options outstanding	Income statement £'000
Employees UK/US	17,993,269	55	1,767,100	12
LTIP (Executives and Senior Management team)	38,568,280	27	4,922,741	44
Velocys, Inc.	58,566	–	63,570	–
Bonus shares	37,655	–	79,760	–
Other	212,625	–	212,625	2
Total	56,870,395	82	7,045,796	58

Critical estimates and judgements
Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. For the measurement of the fair value of equity-settled transactions with employees at the grant date, the Company uses a Black-Scholes model and a Monte-Carlo simulation model for awards granted in 2019.

Employees UK/US
In 2019, the Company awarded all of its UK and US employees (excluding the Executive Directors and Non-Executive Directors) with a Special Award grants of options. The UK awards had advanced assurance from the HMRC for EMI qualification. The Special awards were made as a once-off award, looking forward, to incentivise, focus, retain and reward staff and in part as recognition that no long term equity based award schemes have been put in place since 2014. The Special Award also encompassed and superseded awarded options in new joiner employment contracts where the options had not yet been granted.

The Special Awards granted vest over a three year period with the first tranche vesting on 31 December 2019. The options granted expire after ten years. The options will normally lapse if the option holder ceases to hold an office or employment within the Group. The exercise price was set at the time of grant at 3 pence. Options are fair valued at grant date using the Black-Scholes model, and expensed over the vesting period.

Prior to 2019, options were granted to employees when they join the Company, which vest three, four or five years from the date of joining, subject to the employee completing a corresponding service period, and expire after ten years. The exercise price is the mid-market value of Velocys plc's ordinary shares on the day prior to grant. Options are fair valued at grant date using the Black-Scholes model, and expensed over the vesting period. No options were granted in 2018.

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

	2019		2018	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	129.45p	1,767,100	117.95p	2,036,100
Granted	3.00p	16,700,000	–	–
Forfeited	106.42p	(473,831)	89.31p	(269,000)
Exercised	–	–	–	–
At 31 December	12.31p	17,993,269	129.45p	1,767,100

Of the 17,993,269 options outstanding at 31 December 2019, 1,389,934 were exercisable (2018: 1,550,431). The weighted average exercise price of the exercisable shares was 41.85p (2018: 129.62p).

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

		2019		2018	
Year of expiry	Range of exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
2019	159p	–	–	62,893	159.00p
2020	57.78 – 68.32p	21,308	57.78p	24,352	68.32p
2021	51 – 72.25p	491,961	53.74p	739,855	44.74p
2022	67.55 – 69.89p	10,000	67.55p	10,000	69.89p
2023	185.99 – 206.53p	460,000	191.71p	460,000	198.36p
2024	202.61 – 293.23p	140,000	230.81p	160,000	236.74p
2025	60.47 – 174.66p	100,000	168.81p	240,000	154.18p
2026	29.24 – 39.26p	70,000	29.65p	70,000	30.67p
2027	–	–	–	–	–
2028	–	–	–	–	–
2029	3.00p	16,700,000	3.00p	–	–
Total	3.00 – 293.23p	17,993,269	37.11p	1,767,100	129.45p

The significant inputs into the Black-Scholes model were as follows.

	2019	2018
Weighted average share price at grant date	1.45p	–
Weighted average exercise price	3.00p	–
Expected volatility	73.40%	–
Weighted average annual risk-free rate	0.01% – 0.63%	–
Dividend yield	0%	–
Weighted average expected life	5.03 – 6.03	–

Total expense recognised in the income statement for share options granted to directors and employees was £55,000 (2018: £12,000).

LTIP (Executives and Senior Management team) options

Executive and Senior Management options (also referred to as "LTIP" and the "Scheme" in the Directors' remuneration report) are awarded to Executive Directors and senior managers of the Company.

The fair value of options is recognised from the start of the relevant service period to the end of the vesting period.

In 2019, the Remuneration Committee introduced a new annual equity-based incentive scheme for executive directors and senior managers. Under the 2019 Scheme, Executive Directors and senior managers were awarded (i) time based share options and (ii) performance based awards in equal amounts.

The time based share options awarded vest and become exercisable on the third anniversary of the grant date in December 2019 and expire after ten years. The exercise price was set at the time of grant at 3 pence. The options will normally lapse if the option holder ceases to hold an office or employment within the Group. Options are fair valued at grant date using the Black-Scholes model, and expensed over the vesting period.

The performance awards vest and become exercisable in full on the third anniversary of the grant date provided the weighted average share price for the month preceding that third anniversary is at least 4.50 pence. The options expire after ten years. The exercise price was set at the time of grant at 3 pence. The options will normally lapse if the option holder ceases to hold an office or employment within the Group. Options are fair valued at grant date using the Monte-Carlo model, and expensed over the vesting period.

In connection with the commencement of service of Mr. Wareborn and Mr. Morris, it was agreed to award 2,000,000 share options with an effective date of grant at the date of the services agreement, two-thirds of the Options vested on the effective date of grant 13th December 2019. The balance of the Options vest on 4th December 2020. The exercise price of the awards is 10 pence and the last date for exercise is the day immediately preceding the tenth anniversary of the date of grant.

In connection with the commencement of service of Mr. Wareborn and Mr. Morris, each was awarded 2,000,000 performance based awards. These awards vest and become exercisable at either (i) 31 December 2021 if the target conditions are met or (ii) 31 December 2022 if the target conditions are not met by 31 December 2021 but are met within the calendar year 2022. The target condition is that for any 15 consecutive dealing days leading up to the vesting date the weighted average share price of the Velocys shares on each of these days is equal to or more than 15 pence or for any 45 consecutive days in the six month period leading up to 31 December 2021 the weighted average share price of a share over the 45-day period is equal to or more than 15 pence. The exercise price is 15 pence.

Notes to the consolidated financial statements (continued)

15. Share-based payments (continued)
Executive options granted up to and including 2014, are exercisable at a price of 1p or at a price equal to the mid-market value of the parent company's ordinary shares on the day prior to the grant. Options vest immediately or after a period of one, two or three years from grant, they expire after ten years and are forfeited if the employee leaves the Company before the options vest.

Options, including Restricted Stock Units ("RSU"s), awarded after 2014 were divided into those with a service period and those with market performance conditions. Except for a former executive, service period options represented 23% of the award; they vest two years after the conclusion of the period over which performance is measured; the market performance conditions on which the rest of the award was based pertain to the compound annual growth rate of the Company's market capitalisation excluding fund raising subsequent to 1 January 2015; market performance options are measurable after three years from the start of the service period, with a possible final re-measurement in 2019; options are subject to the discretion of the Board if the employee leaves the Company before the options vest.

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

	2019		2018	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	97.02p	4,922,741	89.85p	7,597,732
Granted	5.69p	35,125,146	–	–
Forfeited	78.48p	(1,479,607)	63.10p	(2,674,991)
Exercised	–	–	–	–
At 31 December	14.55p	38,568,280	97.02p	4,922,741

Of the 38,568,280 options outstanding at 31 December 2019, 3,238,134 were exercisable (2018: 4,822,741). The weighted average exercise price of the exercisable shares was 37.49p (2018: 90.55).

Share options, performance awards and RSUs outstanding at the end of the year have the following expiry dates (RSU latest exercise dates) and exercise prices.

		2019		2018	
Year of expiry	Range of exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
2018	–	–	–	–	–
2019	Nil – 1.00p	–	–	517,369	0.31p
2020	Nil	–	–	171,407	Nil
2021	1.00 – 58.00p	471,876	10.82p	550,000	17.52p
2022	49.00p	851,503	28.00p	970,503	49.00p
2023	159.00p	911,853	97.85p	1,456,694	159.00p
2024	153.00 – 163.50p	763,937	112.94p	1,156,768	163.05p
2025	Nil	238,965	Nil	–	–
2026	1.00p	105,000	1.00p	–	–
2027	1.00p	100,000	1.00p	100,000	1.00p
2029	3.00-15.00p	35,125,146	5.69p	–	–
Total	Nil – 163.50p	38,568,280	38.63p	4,922,741	97.02p

In 2019, the Company awarded 35,121,146 of equity awards with a weighted average fair value of 3 pence per option. No options have been granted in respect of 2018. The significant inputs into the model were as follows.

	2019	2018
Weighted average share price at grant date	1.45p	–
Weighted average exercise price	3.00p-15.00p	–
Expected volatility	70.89%	–
Weighted average annual risk-free rate	0.69%	–
Dividend yield	0%	–
Weighted average expected life	5.03-10.0	–

Total expense recognised in the income statement for executive options granted to directors and employees was £27,000 in 2019 (2018: £44,000).

Velocys, Inc. scheme

The Velocys, Inc. Stock Compensation Plan ("Pre-Acquisition Scheme") was acquired as part of the acquisition of Velocys, Inc. by Velocys plc, formerly Oxford Catalysts Group PLC, on 20 November 2008. The scheme was started in 2001 and covers all US-based employees. Prior to the acquisition, Velocys, Inc.'s Board of directors granted non-qualified share options to employees with expiry ten years from grant date. The options' exercise price was equal to the stock's fair market value at the date of grant. Options are forfeited if an employee leaves the Company. Generally, options vest as follows.

After one year of service from vest start date:	25% of grant
Each month subsequent to one year of service:	1/48th of grant

Pursuant to the terms and conditions of the acquisition of Velocys, Inc., each vested and unvested Pre-Acquisition Scheme option existing on the acquisition date was converted into 0.3659 of a Velocys plc, formerly Oxford Catalyst Group PLC, option (the ratio of the value of one share of Velocys, Inc. stock to one share of Velocys plc, formerly Oxford Catalyst Group PLC stock) with a corresponding increase to the exercise price. Share options are exercisable in US dollars.

During 2011, the Company reviewed employee incentives and concluded that the Pre-Acquisition Scheme options did not provide the intended incentive or retention value for its employees due to significant shifts in the market price since the original grants. Consequently, holders of these options were offered the opportunity to forfeit their options and have new options issued. All such new issues vested in three years and expire ten years from date of grant.

Details of the share options outstanding under the Velocys, Inc. scheme are as follows.

	2019		2018	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	$0.93	63,570	$0.93	63,570
Forfeited	$0.93	(5,004)	–	–
Exercised	–	–	–	–
At 31 December	$0.93	58,566	$0.93	63,570

Of the options outstanding presented above, 58,566 (2018: 63,570) were exercisable as of 31 December 2019. The weighted average share price of the exercisable shares was $0.93 (2018: $0.93).

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

		2019		2018	
Year of expiry	Exercise price per share	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
2021	$0.93	58,566	$0.93	63,570	$0.93
Total	$0.93	58,566	$0.93	63,570	$0.93

Total expense recognised in the income statement for share options granted under the Velocys, Inc. plan was £nil (2018: £nil).

Bonus shares

The Company previously maintained two bonus share schemes for certain executives: one in respect of employees of Velocys Technologies Limited and one in respect of employees of Velocys, Inc. Under both schemes, the value of the bonus was based upon the executive's salary as well as the Company and the executive achieving certain targets throughout the year. No awards were, or will be, made under these schemes during, or in respect of, 2019 and 2018.

Notes to the consolidated financial statements (continued)

15. Share-based payments (continued)
The Velocys Technologies Limited bonus share scheme awarded nominal value share options (1p) that were issued subsequent to the end of previous financial years. The awards vested on the date of grant and expire 10 years thereafter. Details of the bonus shares outstanding under the Velocys Technologies Limited bonus share scheme are as follows.

	2019		2018	
	Exercise price	Number of options	Exercise price	Number of options
At 1 January	1.00p	79,760	1.00p	79,760
Forfeited	1.00p	(42,105)	–	–
At 31 December	1.00p	37,655	1.00p	79,760

Velocys Technologies Limited bonus share options outstanding at the end of the year have the following expiry dates.

		2019	2018
Year of expiry	Exercise price	Number of options	Number of options
2019	1.00p	–	42,105
2021	1.00p	37,655	37,655
Total	1.00p	37,655	79,760

The Velocys, Inc. bonus share scheme consists of deferred shares awarded subsequent to year end at a nominal price of 1p. 20% of the award is due to be granted on each anniversary of the date of award. Shares remaining to be granted in future years totalled 16,418.

No bonus share grants were made for either scheme in 2019 (2018: nil). All expense has been recognised prior to 2018.

Other share options
The Board has approved the granting of share options to a small number of consultants (non-employees) who provide a strategic service to the business.

Options are granted either in respect of a completed service period, in which case they vest immediately, or in respect of a future service period, in which case they vest over periods of up to three years. They expire after ten years. Exercise prices range from £nil to the mid-market value of Velocys plc's ordinary shares on the day prior to grant. Options are fair valued at grant date using the Black-Scholes model (which is not the fair value of goods and services received). For a completed service period, fair value is expensed over the service period plus the vesting period, for a future service period, fair value is expensed over the vesting period.

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

	2019		2018	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	104.15p	212,625	104.15p	212,625
Granted	–	–	–	–
Exercised	–	–	–	–
At 31 December	104.15p	212,625	104.15p	212,625

Of the options issued to consultants and outstanding at 31 December 2019, 212,625 were exercisable (2018: 212,625). The weighted average exercise price of the exercisable shares was 104.15p (2018: 104.15p).

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

		2019		2018	
Year of expiry	Range of exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
2023	1.00 – 53.10p	29,500	53.10p	29,500	53.10p
2024	145.25p	21,375	145.25p	21,375	145.25p
2025	105.25 – 143.50p	161,750	108.03p	161,750	108.03p
Total	1.00 – 145.25p	212,625	104.15p	212,625	104.15p

No options have been granted to consultants in respect of 2019 and 2018.

The share-based payment expense for the year includes a cost of £nil (2018: £2,000) relating to options granted to consultants.

Share-based payments charge

The total charge for share-based payments during the year was £82,000 (2018: £58,000) of which £23,000 (2018: £32,000) relates to options granted to directors and the remainder to other employees.

16. Loss per share

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

	2019	2018
Loss attributable to owners of Velocys plc (£'000s)	(9,615)	(30,583)
Weighted average number of ordinary shares in issue	507,218,656	341,867,109
Basic and diluted loss per share (pence)	(1.90)	(8.95)

Diluted loss per share is calculated by adjusting the weighted average number of shares in issue to assume conversion of all potential dilutive shares. Share options have not been included in the number of shares used for the purpose of calculating diluted loss per share since these would be anti-dilutive for the period presented. At the end of 2019 and 2018 there were no other potentially dilutive instruments (see note 27). Details of share options are given in note 15.

17. Intangible assets

Significant accounting policies

Cost or valuation and amortisation

In-process technology

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

Patents, licences and trademarks

Patents and trademarks are recorded at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over a period of 20 years, which is their estimated useful economic life. Residual values and useful lives are reviewed annually and adjusted if appropriate. The Company decided to abandon certain non-core patents in 2019 and 2018. This resulted in a loss on disposal of patents of £187,000 (2018: loss of £627,000).

Software

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

Impairment

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

Notes to the consolidated financial statements (continued)

17. Intangible assets (continued)

Significant accounting policies (continued)

Cost or valuation and amortisation (continued)

Impairment (continued)

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 twelve months, due to an increase or further decrease in the market capitalisation of Velocys plc, the impairment disclosed in this note would be reversed or the Company's assets would be further impaired accordingly. Upon analysis performed at 31 December 2019, the Company determined that no reversal of prior year impairments was required or additional impairment required. This assessment also considered the operating performance of the Company during 2019 which included progress being made on our reference projects, new funding obtained and customer agreements signed. This 2019 performance, including both negative and positive factors, was also not considered indicative of incremental impairment or reversal of previous impairment.

Critical estimates and judgements

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, a number of indicators of potential impairment. In 2019, the Company considered:

- At 31 December 2019, if the carrying amount of the Company's net assets exceeded Velocys plc's market capitalisation;
- Significant decreases in the market price of the asset; and
- Significant adverse changes in the extent or manner in which an asset is being used.

Based on the 2019 analysis, the Company concluded that no impairment or reversal of previous impairment was required with reference to the 31 December 2019 parent company equity based valuation.

To assess the recoverability of the intangible assets, the recoverable amount is calculated at a 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. As detailed in the accounting policy set out above, the Company is considered to operate as a single CGU. Due to the stage of the Company's strategy, its biorefinery development plans are still too early to provide reliable revenue forecasts for long-term discounted cash flow analysis. Consequently, the CGU's recoverable amount has been determined based on its fair value less costs of disposal (fair value), by reference to the total value of the parent company's equity based on the AIM-listed shares of the parent company, consistent with the impairment assessment performed in the prior year.

2019	Goodwill £'000	In-process technology £'000	Patents, licence and trademarks £'000	Software £'000	Total £'000
Cost					
At 1 January 2019	7,398	23,681	1,580	96	32,755
Additions	–	–	394	–	394
Disposals	–	–	(291)	–	(291)
Foreign exchange movement	–	–	(85)	–	(85)
At 31 December 2019	7,398	23,681	1,598	96	32,773
Accumulated amortisation and impairment					
At 1 January 2019	7,398	23,681	1,223	96	32,398
Charge for the year	–	–	112	–	112
Disposals	–	–	(104)	–	(104)
Foreign exchange movement	–	–	(77)	–	(77)
At 31 December 2019	7,398	23,681	1,154	96	32,329
Net book amount					
At 31 December 2019	–	–	444	–	444

2018	Goodwill £'000	In-process technology £'000	Patents, licence and trademarks £'000	Software £'000	Total £'000
Cost					
At 1 January 2018	7,398	23,681	2,159	96	33,334
Additions	–	–	349	–	349
Disposals	–	–	(956)	–	(956)
Foreign exchange movement	–	–	28	–	28
At 31 December 2018	7,398	23,681	1,580	96	32,755
Accumulated amortisation and impairment					
At 1 January 2018	7,398	23,681	1,404	96	32,579
Charge for the year	–	–	96	–	96
Disposals	–	–	(329)	–	(329)
Foreign exchange movement	–	–	52	–	52
At 31 December 2018	7,398	23,681	1,223	96	32,398
Net book amount					
At 31 December 2018	–	–	357	–	357

18. Property, plant and equipment

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

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

Assets are reviewed for impairment annually and also whenever events or changes in circumstances indicate their carrying value may not be recoverable. To the extent the carrying value exceeds the recoverable amount, the difference is recorded as an expense in the Income statement. The recoverable amount used for impairment testing is the higher of the value in use and fair value less costs of disposal. For the purpose of impairment testing, assets are generally tested individually or at a CGU level, which represents the lowest level for which there are separately identifiable cash inflows, which are largely independent of cash inflows from other assets or groups of assets. Property, plant and equipment were included in the list of items to which an impairment was considered but nothing applied subsequent to the impairment review (see note 17).

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

Notes to the consolidated financial statements (continued)

18. Property, plant and equipment (continued)

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

2019	Assets under construction £'000	Land £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2019	532	1,285	7,841	9,658
Additions	621	–	158	779
Disposals	–	–	–	–
Transfers to plant and machinery	(171)	–	171	–
Foreign exchange	–	14	111	125
At 31 December 2019	982	1,299	8,281	10,562
Accumulated depreciation and impairment				
At 1 January 2019	33	706	7,100	7,839
Charge for the year	–	–	568	568
Impairment	–	439	–	439
Transfer to plant and machinery	(33)	–	33	–
Foreign exchange	–	(3)	(15)	(18)
At 31 December 2019	–	1,142	7,686	8,828
Net book amount				
At 31 December 2019	982	157	595	1,734

2018	Assets under construction £'000	Lease Assets £'000	Land £'000	Plant and machinery £'000	Total £'000
Cost					
At 1 January 2018	51	–	1,212	8,731	9,994
Additions	476	–	–	33	509
Disposals	(4)	–	–	(1,492)	(1,496)
Transfers to plant and machinery	(16)	–	–	16	–
Foreign exchange	25	–	73	553	651
At 31 December 2018	532	–	1,285	7,841	9,658
Accumulated depreciation and impairment					
At 1 January 2018	31	–	666	7,496	8,193
Charge for the year	–	–	–	563	563
Disposals	–	–	–	(1,466)	(1,466)
Foreign exchange	2	–	40	507	549
At 31 December 2018	33	–	706	7,100	7,839
Net book amount					
At 31 December 2018	499	–	579	741	1,819

As at 31 December 2019, the Company had not entered into any contractual commitments for the material acquisition of property, plant and equipment.

19. Leases

The Company leases certain building and equipment under non-cancellable leases with varying lease terms. Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases under the principles of IAS 17 Leases. As a result of the adoption of IFRS 16 on 1 January 2019, the company recognised a right-of-use asset and a lease liability on the Balance Sheet. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was approximately 21%.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. Building leases are typically for a fixed period of time but may have extension options. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

To determine the incremental borrowing rate, the Company uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases, which does not have recent third party financing, and makes adjustments specific to the lease, e.g. term, country, currency and security. The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Interest expense (included in finance costs) was £196,000 (2018: £nil).

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Impairment of right-of-use assets is accounted for under IAS 36.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Expense related to short term leases and lease of low-value was £2,000 (2018: £nil) and were included in administrative expenses.

Critical estimates and judgements

Leases – Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates the IBR using a build-up approach as stated above. The incremental borrowing rate is not sensitive to changes as a 10% movement in the IBR does not have a material impact on the lease liability.

Leases – Determining the lease term of contracts with renewal and termination options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Notes to the consolidated financial statements (continued)

19. Leases (continued)

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

Cost	Equipment £'000	Buildings £'000	Total £'000
At 1 January 2019	168	870	1,038
Additions	–	208	208
Foreign exchange	–	18	18
At 31 December 2019	168	1,096	1,264
Accumulated depreciation			
At 1 January 2019	–	–	–
Charge for the year	63	351	414
Foreign exchange	–	14	14
At 31 December 2019	63	365	428
Net Book value			
At 31 December 2019	105	731	836

Additions to right-to-use assets during 2019 were £208,000 relating to the Company's relocation to the Oxford Science Park.

Lease liability	**31 December 2019 £'000**	1 January 2019 £'000
Current	581	409
Non-Current	343	629
	924	1,038

20. Investment in associate

The Company carries nil value for an Investment in associate. Previously the Company recorded an investment related to Velocys' holding in ENVIA Energy, LLC ("ENVIA"), a US company and the holding company for the project located in Oklahoma (the "ENVIA project"). The Company first invested in ENVIA in 2014 as entry into a joint venture to develop GTL plants in the US using a combination of renewable biogas (including landfill gas) and natural gas. In 2018 the Company impaired the investment in ENVIA to nil value due to the decision by the Board of Managers of ENVIA to shut down the operations in Oklahoma.

	2019 £'000	2018 £'000
Investment in associate		
At 1 January	–	2,580
Share of loss	–	(1,717)
Impairment	–	(848)
Foreign exchange	–	(15)
At 31 December	–	–

21. Trade and other receivables

Trade receivables represent assets that are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest. Other receivables consist of vendor deposits and deferred costs associated with an ongoing project. At 31 December 2019, deferred costs represented £1,054,000 (2018: £281,000) and are principally related to the Red Rock project. Also included in the Trade and other receivables are prepaid costs of £447,000 (2018: £925,000) and VAT receivables in the amount of £99,000 (2018: £91,000). Trade receivables of £37,000 (2018: £6,000) are considered not material and, in general, are collected within 45 days of invoice date.

Loan receivable represents the outstanding loan and related interest associated with the loan to ENVIA at the end of 2018. The interest receivable associated with the ENVIA loan is calculated using the effective interest rate method. The Company's trade receivables and loan receivable are classified and measured at amortised cost.

In April 2019, the Company completed negotiations with the remaining partners and site landlord on a wind-down for ENVIA. In the wind-down, ENVIA released the site to the landlord and sold certain assets, the proceeds of which were used to fund wind-down operations and repay £3.4m against part of ENVIA's outstanding secured loan obligation to the Company. This is considered a best outcome under the circumstances for the total loans made of £15.8m and a positive result from the activity with ENVIA, including all the operating and management data secured from the operation of this full scale operational FT plant.

	2019 £'000	2018 £'000
Trade and other receivables – non-current	–	281
Trade and other receivables – current	1,637	930
Loan receivable	–	3,474
Total	1,637	4,685

Critical estimates and judgements

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

At 31 December 2019, the Company performed an ECL analysis with respect to trade receivables and no additional impairment was recorded. As at the end of 31 December 2018, performed an updated ECL analysis, where the company recorded an additional impairment on a lifetime ECL basis of £10.1m taking the total provision to £12.3m. The outstanding balance on the loan at 31 December 2018 was therefore £3.4m. As detailed above, negotiations were concluded in respect of ENVIA with relevant parties in May 2019, where the remaining balance settled.

Impairment losses are presented in administrative expense in the Consolidated income statement.

22. 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.

	2019 £'000	2018 £'000
Raw materials and consumables	1,782	1,043
Work in progress	1,550	–
Finished goods	–	395
Total	3,332	1,438

Raw material and consumables consist primarily of material that will be consumed in the manufacturing of reactors and catalyst. Work in progress consist of labour associated with the manufacturing of reactors. In 2019, the Company recognised £73,000 (2018: £194,000) of inventory in Cost of sales in the consolidated income statement.

In 2019, the Company recognised a provision of £408,000 (2018: £nil) related to slow moving inventory in the Administrative expenses line of the consolidated income statement.

In 2019, the Company recognised a provision of £38,000 related to the manufacturing of two cores which didn't meet the Company specifications. In 2019, the Company reversed a 2017 impairment of a reactor in inventory for the amount of £352,000. This reactor was delivered to a customer in 2019 and is presented as inventory on the 2019 Consolidated balance sheet until the performance obligations, defined under IFRS 15, is met. This reactor has been reclassed to deferred costs as it relates to the Red Rock project. The reversal of the impairment in inventories was partially offset by the impairment of test reactors in the amount of £123,000. There were no impairments recorded with respect to inventory in 2018.

Notes to the consolidated financial statements (continued)

23. Cash and cash equivalents

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

	2019 £'000	2018 £'000
Cash and cash equivalents	4,797	6,964
Total	4,797	6,964

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

	2019 £'000	2018 £'000
Cash and cash equivalents		
UK sterling denominated	3,783	5,130
US dollar denominated	927	1,733
Euro denominated	87	101
Total	4,797	6,964

24. Trade and other payables: current

	2019 £'000	2018 £'000
Trade payables	333	853
Other taxation and social security	45	395
Accruals	953	1,770
Total	1,331	3,018

Due to their short maturity, the fair value of trade and other payables is not considered to be materially different to their carrying values, based on discounted cash flows.

All trade payables are due in 60 days or less (2018: 60 days or less).

25. Trade and other payables: non-current

	2019 £'000	2018 £'000
Accruals	–	90
Total	–	90

The fair values of trade and other payables are not considered to be materially different to their carrying values.

26. Financial instruments

On 1 January 2018, the Company adopted IFRS 9, which replaces the provisions of International Accounting Standard 39, "*Financial Instruments: Recognition and Measurement*" ("IAS 39"), that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Financial assets

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

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

The Company's principal financial asset is Cash and cash equivalents. From time to time it also holds short-term investments, which are cash deposits on fixed terms of interest for more than three months.

Loans and receivables also includes Trade and other receivables (see note 21) which are classified as both non-current assets and current assets. Other receivables consists of deferred costs which are outside of the scope of IFRS 9. At 31 December 2019, there were £nil (2018: £281,000) non-current Trade and other receivables.

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

Financial liabilities at amortised cost
Financial liabilities at amortised cost includes Trade payables, all of which are current liabilities (see note 24) as well as Borrowings and Finance leases. Trade payables are stated at fair value and subsequently held at amortised cost using the effective interest method. Under Borrowings, interest bearing loans and overdrafts are initially recorded at the fair value of proceeds received net of direct issue costs, and thereafter at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are recognised in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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

Liquidity
The Company's cash usage is significant versus prospective future cash inflows and Velocys is reliant on the support of a small group of major shareholders and project partners. The timing of cash flows is difficult to predict given the long development time and reliance on external parties. The Board recognises that further funding will be needed. Note 2 discusses uncertainties surrounding the extent and composition of future funding. The Company has recently received commitment of investment from strategic project partners in April 2020, from which the likelihood of additional financing from current and new shareholders is created.

Equity forms the basis of the Company's capital. Its objectives when managing this capital are:
- To secure its ability to continue as a going concern.
- To keep its cost of capital low through an optimised capital structure.
- To preserve sufficient funds to protect it against unforeseen events and risks.
- To be in a position to take advantage of opportunities that can deliver a return to shareholders.

The Company's revenue stream relies on projects incorporating its technology, securing project finance. The Company's strategy is to take a pro-active role in this process even though two of its customers' project in 2019 were started independently from the Company's activities in 2019. It is actively engaging with banks and financial advisors with high levels of expertise in project financing to support the financing plans for the types of projects it is developing.

Cash flow forecasts are regularly reviewed, cash balances are held immediately available as necessary, and surplus funds are placed on time deposits of varying duration. With the completion of the July 2020 fundraise, the Company maintains sufficient cash balances to meet anticipated requirements. However, additional income may come from one, or a combination of, the following sources, with agreements being actively sought from third parties:
- Additional third-party license sales, similar to the Red Rock Biofuels project.
- The realisation of certain assets and the selling of non-core intellectual property.
- Additional strategic investment of development capital into either or both of Altalto Immingham Project and the Mississippi Biorefinery Project, which are expected during 2020 and the first half of 2021.
- UK or USA Government loans or grants.

Please see note 33 for additional information regarding the completion of the July 2020 fundraise.

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

The use of financial derivatives is governed by Company policies, which are approved by the Board of directors, and which provide a set of written principles for the management of these risks. At 31 December 2019, there were no financial derivatives (2018: £nil).

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

	2019		2018	
	Income statement £'000	Equity £'000	Income statement £'000	Equity £'000
GBP:USD exchange rate +/- 10%	62	(100)	84	(212)

Notes to the consolidated financial statements (continued)

26. Financial instruments (continued)

Exchange rates (continued)

The Company's exposure to foreign currency risk at the end of the reporting period, expressed in currency units, was as follows:

	2019		2018
	USD £'000	GBP £'000	USD £'000
Trade receivables	37	6	–
Trade payables	201	–	814
Debt	–	–	289

Credit

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

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

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

Interest rates

Variations in interest rates affect only Velocys' cash holdings, as its borrowing were payable at a fixed rate. The Company has no borrowings, other than lease liabilities, as 31 December 2019. As far as the cash flow forecast allows for certainty, funds are placed on fixed rate deposits. The effect of interest rates on exchange rates is not anticipated.

Financial assets are as follows.

			31 December 2019
	Assets at amortised costs £'000	Assets at fair value through profit or loss £'000	Total £'000
Assets			
Trade and other receivables excluding non-financial assets	37	–	37
Cash and cash equivalents	4,797	–	4,797
Total	4,834	–	4,834

			31 December 2018
	Assets at amortised costs £'000	Assets at fair value through profit and loss £'000	Total £'000
Assets			
Trade and other receivables excluding non-financial assets	1,198	–	1,198
Cash and cash equivalents	6,964	–	6,964
Total	8,162	–	8,162

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

	2019		2018	
Short-term bank deposits, cash at bank and in hand	£'000	%	£'000	%
Aa1	–	–	517	7
Aa2	–	–	–	–
Aa3	1,498	31	4,064	59
A1	3,299	69	24	–
A2	–	–	2,359	34
Total	4,797	100	6,964	100
Aa2	–	–	–	–

Financial liabilities are as follows.

	31 December 2019	
	Financial liabilities at amortised cost £'000	Total £'000
Liabilities as per balance sheet		
Trade and other payables excluding non-financial liabilities	378	378
Accruals	953	953
Lease liabilities	924	924
Total	2,255	2,255

	31 December 2018	
	Financial liabilities at amortised cost £'000	Total £'000
Liabilities as per balance sheet		
Borrowings	289	289
Trade and other payables excluding non-financial liabilities	1,248	1,248
Accruals	1,770	1,770
Total	3,307	3,307

The contractual maturity of financial liabilities is as follows.

	2019 £'000	2018 £'000
Within one year	1,912	3,108
Within two to five years	343	–
Total	2,255	3,108

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

27. Called up share capital and reserves

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

Convertible loan note instruments ("loan notes") issued by the Company allow the issuer the right to exchange all outstanding loan notes and all accrued interest thereon for equity in the parent company. The Company assesses whether the loan notes and the

Notes to the consolidated financial statements (continued)

27. Called up share capital and reserves (continued)
conversion feature should be classified as a financial liability or equity instrument. In making this assessment the Company assesses whether there is an obligation for the Company to:

a) deliver cash to another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company (as the issuer); and
b) if the instrument will or may be settled in the issuer's own equity instruments it is:
   (i) a non-derivative that includes no contractual obligation for the Company to deliver a variable number of its own equity instruments; or
   (ii) a derivative that will be settled only by the Company exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

If these criteria are met, the loan notes will be recorded as an equity instrument.

In 2018, the £18,000,000 loan notes issued in May 2017 were settled.

	Number of shares* (thousands)	Ordinary shares (restated) £'000	Share Premium (restated) £'000	Convertible loan/ 'other' reserve £'000
At 1 January 2018	146,860	1,468	149,964	9,421
Proceeds from share issues	243,463	2,435	20,205	–
Convertible loan notes	18,000	180	8,820	(9,000)
Interest on convertible loan notes	2,100	22	1,027	(421)
At 31 December 2018	410,423	4,105	180,016	–
Proceeds from share issues	233,333	2,333	4,240	–
At 31 December 2019	643,756	6,438	184,256	–

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

The presentation of called up share capital and share premium in the period December 31, 2018 has been restated with respect to a calculation error in the amount of £2,192,000. Prior to the restatement, at 31 December 2018 called up share capital was £1,913,000 and share premium was £182,208,000. The restatement resulted in an increase in called up share capital and a decrease in share premium.

In July 2019 Velocys announced a gross fundraise of £7.0 million (£6.6 million net of fees and expenses). This constituted a firm placing of Ordinary shares. The firm placing was of 233,333,335 Ordinary shares at a price of £0.03 with existing and new shareholders. These shares represented 57% of the enlarged Ordinary share capital.

In January 2018 Velocys announced a gross fundraise of £18.4 million (£16.8 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.

In August 2018 Velocys announced a gross fundraise of £6.0 million (£5.6 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 30,000,000 Ordinary shares at a price of £0.10 with existing and new shareholders. These shares represented 14.4% of the enlarged Ordinary share capital.

In November 2018, the 18,000,000 loan notes that were issued in 2017 to two of Company's largest shareholders matured; as such the Company issued 20,100,000 shares. The Company issued 420,000 of shares to HMRC related to the £1.1 million of interest expense associated with the loan notes.

A total of 56,870,395 (2018: 7,045,796) options to subscribe for ordinary shares of Velocys plc have been granted and are outstanding at 31 December 2019 under the employee options schemes operated within the Company and contracts for options granted to a limited number of consultants. Details are given in note 15.

Reserves

Foreign exchange reserve relates to the exchange differences arising from the retranslation of the results and opening net assets of foreign subsidiaries. Changes in the reserve are included in other comprehensive income. The Company's foreign exchange reserve was a credit balance of £3,289,000 (2018: a credit balance of £3,551,000).

The share-based payment reserve records the IFRS 2 charge for equity settled share-based payment awards. At 31 December 2019, the Company's share-based payment reserve was £16,225,000 (2018: £16,143,000).

28. Commitments

The Company leases certain property, plant and equipment. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

From 1 January 2019, the Company has recognised right-of-use assets for these leases, except for short-term and low-value leases, see note 19. At 31 December 2019, the Company did not have any short-term or low-value leases with lease term greater than one month.

	2018 £'000
Future aggregate minimum lease payments	
Within one year	414
Between one and five years	900
After more than five years	–
Total	1,314

29. Other liabilities

Other liabilities are comprised of contract liabilities related to the development funding received from industry partners related to the next stage of the UK Altalto Immingham waste-to-jet project, being £2,804,000 in 2019 (2018: £2,092,000).

30. Deferred revenue

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

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

£'000	Catalyst	Reactor	License	Total
At 1 January 2018	1,238	–	–	1,238
Contract liabilities incurred	1,334	1,949	1,199	4,482
Revenue recognised in the period	(507)	–	–	(507)
At 31 December 2018	2,065	1,949	1,199	5,213
Contract liabilities incurred	499	853	–	1,352
Released deferred revenue	(533)	–	–	(533)
At 31 December 2019	2,031	2,802	1,199	6,032

In 2019 the Company released deferred revenue in the amount of £533,000 in final settlement of the ENVIA loan receivable balance representing a recovery on the impairment recorded in 2018, see note 4.

Management expects that 95% of the deferred revenue as of 31 December 2019 could be recognised as revenue in 2021 if the related performance obligations are met.

31. Related parties

The participation of each of Ervington Investments Limited and Lansdowne Partners in the July 2019 Placing constitutes a related party transaction under the AIM Rules as each is a substantial shareholder (within the meaning of the AIM Rules). Ervington Investments Limited subscribed for 46,666,666 Placing Shares at the Placing Price of 3 pence per share, and Lansdowne Partners subscribed for 49,373,800 Placing Shares at the Placing Price. The Directors consider, having consulted with Numis, the Company's nominated advisor, that the terms of the related party transaction were fair and reasonable.

For 2019, the Company recognised the remaining catalyst lease revenue totalling £43,000 related to a catalyst lease agreement with ENVIA, an associate in which the Company has ownership and voting rights as detailed in note 20 of the consolidated financial statements. No further activity associated with ENVIA is expected to occur going forward.

For 2018, the Company recognised catalyst lease revenue totalling £534,000 related to a catalyst lease agreement with ENVIA, an associate in which the Company has ownership and voting rights as detailed in note 20 of the consolidated financial statements. As at 31 December 2018, draw downs on the loan facility had been made by ENVIA in the amount of £5,531,000. As a result of the decision of the Board of Directors of ENVIA to suspend operations at the facility, the Company fully impaired its investment in ENVIA. In addition, the Company impaired £12,341,000 related to the loan facility during 2018.

Disclosures related to key management personnel can be located in the Directors' remuneration report, see page 24. Only the executive and Non-Executive Directors are recognised as being key management personnel.

Notes to the consolidated financial statements (continued)

32. Net debt reconciliation

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

	2019 £'000	2018 £'000
Cash and cash equivalents	4,797	6,964
Borrowings	–	(289)
Lease liabilities	(559)	–
Net debt	4,238	6,675

Cash and cash equivalents	4,797	6,964
Gross debt – fixed interest rate	(559)	(289)
Net debt	4,238	6,675

	Liabilities from financing activities				
	Borrowings £'000	Leases £'000	Sub-total £'000	Cash/bank overdraft £'000	Total £'000
Net debt as at 1 January 2018	(541)	–	(541)	2,070	1,529
Cash flows	252	–	252	4,309	4,561
Other changes	13	–	13	–	13
Foreign exchange adjustments	(13)	–	(13)	585	572
Net debt as at 31 December 2018	(289)	–	(289)	6,964	6,675
Recognised on adoption of IFRS 16 (see note 2 and 19)	–	(1,038)	(1,038)	–	(1,038)
	(289)	(1,038)	(1,327)	6,964	5,637
Cash flows	281	479	760	(1,304)	(544)
Other changes	1	–	1	–	1
Foreign exchange adjustments	7	–	7	(863)	(856)
Net debt as at 31 December 2019	–	(559)	(559)	4,797	4,238

Other changes include non-cash movements, including accrued interest expense which will be presented as operating cash flows in the statement of cash flows when paid.

33. Post financial position events

The following events took place after 31 December 2019.

Fundraise of £21 million completed in July 2020

On 14th July 2020, the Company announced that it had completed the fund raising of £21 million (before expenses) through a Placing, Retail Offer and Open Offer. This was confirmed through a General Meeting held on 14th July 2020 and has been announced to the market. Net of expenses the Company has received £19.65m, which will ensure that it has sufficient funding to continue as a going concern for at least 12 months. The Company expects that it will receive income from other sources including customers through licensing and sales of engineering services which will extend this timeline.

COVID-19 coronavirus pandemic

During March 2020 both the UK and the US Governments implemented a social distancing policy, which meant that we had to close operations at our offices and sites in Oxford, Houston and Plain City and put in place a work from home policy. This has meant that it is difficult to have as many productive face to face meetings as we might have had otherwise but nonetheless progress has been made on all aspects of the business. The ongoing engineering work on the Altalto Immingham, UK biorefinery plant is continuing and to that end in February 2020 we announced the appointment of Worley as engineering partner for the development of all projects in the Velocys portfolio, including the Immingham, UK biorefinery plant.

The Company's judgement is that the extent of Government interventions in response to the COVID-19 pandemic only became apparent after the balance sheet date and represents a non-adjusting post balance sheet event. Given these events are of such significance, further explanation of the impact of COVID-19 is presented in the Strategic report section of the financial statement.

US SBA loan received

In April 2020, the Company announced the approval of a $709,000 (£567,200) loan from the Pay-check Protection Program awarded by the Small Business Administration ("SBA"), a US Federal Agency. The SBA program is part of the Federal stimulus package known as the CARES (Coronavirus Aid, Relief and Economic Security) Act to offer help to small businesses in the USA during the COVID-19 crisis. This unsecured loan has been awarded to support Velocys' US payroll costs in the short-term. It is an unsecured loan with a 2-year maturity and 0.98% interest. No interest or principal payments are due in the first six months. The loan is however eligible for "forgiveness", becoming non-repayable upon application by Velocys after 60 days from receipt if used for retaining US employees and maintaining US payroll costs of at least this amount in the period until the end of June 2020. Velocys is confident that it will meet the criteria for this "forgiveness".

Altalto Immingham Joint Development Agreement extension

In May 2020, the Company has secured a further £1m funding for the Altalto waste-to-fuels project from British Airways PLC and Shell International Petroleum Company Limited ("Shell"), payable before the end of June 2020. The proposed Altalto Immingham plant is being executed under a Joint Development Agreement ("JDA") between British Airways, Shell, and Velocys. This JDA has now been extended as planned in order to support the continued technical and commercial development of the project. British Airways and Shell have each now been granted an option to take a one-third share in the equity capital of Altalto Limited (a subsidiary of the Company) at a strike price of £1, as a pre-cursor to a full Shareholders' Agreement for Altalto Limited in due course.

Altalto Immingham plant granted planning permission from North East Lincolnshire Council

In May 2020, North East Lincolnshire Council granted planning permission for the UK's first commercial waste-to-jet fuel plant. This means that the project can proceed through the next stages of development with the certainty of this completed. Subject to additional funding and financial close, construction is targeted to begin in 2022 and the facility could be producing fuel from 2025.

Further F4C grant from the Department of Transport

In June 2020, the Company announced that it has secured a further £0.5 million of grant funding for the Altalto waste-to-fuels project from the Department for Transport (DfT), under the Future Fuels for Flight and Freight Competition (F4C). Velocys was awarded a grant of £0.4m in Stage One of the F4C in 2018, and was shortlisted to receive an award in Stage Two. The DfT has now made £0.5m of the Stage Two grant available to Velocys. Velocys is one of the two remaining companies expected to receive the balance of funding in Stage Two, subject to completion of future project milestones.

Delivery of Reactors and Catalyst to Red Rock Biofuels

In June 2020 the Company completed the manufacturing and supply of the four reactors and associated catalyst for its customer Red Rock Biofuels. The Company invoiced £0.9 million during 2019 which was all treated as deferred revenue in accordance with IFRS 15 until the performance test is completed during commissioning of the plant in 2021.

Legal disputes

The Company may from time to time be involved in disputes which may give rise to claims. The Directors have considered any current matters pending against the Company, including a claim made by the bankruptcy trustee of Ventech Engineers International LLC (a former commercial partner of the Company). Based on the information available and the facts and circumstances of any claims, the Board considers that the outcome of these will be resolved with no material impact on the Company's financial position or results.

Velocys plc statement of financial position

as at 31 December 2019

	Note	**2019 £'000**	2018 (restated) £'000
Assets			
Non-current assets			
Investments in subsidiaries	9	9,121	12,377
Property, plant and equipment	8	27	–
		9,148	12,377
Current assets			
Trade and other receivables	10	1,400	7
Current income tax asset	6	539	589
Cash and cash equivalents		1,492	1,803
		3,431	2,399
Total assets		12,579	14,776
Liabilities			
Current liabilities			
Trade and other payables	11	(1,088)	(75)
Total Liabilities		(1,088)	(75)
Net assets		11,491	14,701
Capital and reserves attributable to owners of Velocys plc			
Called up share capital	13	6,438	4,105
Share premium account	13	184,256	180,016
Share-based payment reserve	13	16,225	16,143
Accumulated losses at 1 January		(185,563)	(162,237)
Loss for the year attributable to owners		(9,865)	(22,698)
Convertible loan note interest		–	(628)
Total equity		11,491	14,701

The notes on pages 79 to 86 are part of these parent company financial statements.

The presentation of called up share capital and share premium in the period December 31, 2018 has been restated with respect to a calculation error in the amount of £2,192,000. The restatement resulted in an increase in called up share capital and a decrease in share premium. Prior to the restatement, at 31 December 2018 called up share capital was £1,913,000 and share premium was £182,208,000.

The financial statements on pages 76 to 86 were approved by the Board of directors on 5 August 2020 and signed on its behalf by:

Henrik Wareborn
Chief Executive Officer
5 August 2020

Company number 05712187

Velocys plc statement of changes in equity

for the year ended 31 December 2019

	Called up share capital (Restated) £'000	Share premium Account (Restated) £'000	Share-based payment reserve £'000	Convertible loan note/ 'other' reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 2018	1,468	149,964	16,085	9,421	(162,237)	14,701
Loss for the year	–	–	–	–	(28,314)	(28,314)
Foreign currency translation differences	–	–	–	–	5,616	5,616
Total comprehensive expense	–	–	–	–	(22,698)	(22,698)
Transactions with owners						
Share-based payments – value of employee services	–	–	58	–	–	58
Proceeds from share issues	2,435	20,205	–	–	–	22,640
Convertible loan notes	180	8,820	–	(9,000)	–	–
Interest on convertible loan notes	22	1,027	–	(421)	(628)	–
Total transactions with owners	2,637	30,052	58	(9,421)	(628)	22,698
Balance at 31 December 2018	4,105	180,016	16,143	–	(185,563)	14,701
Net loss for the year	–	–	–	–	(9,865)	(9,865)
Foreign currency translation differences	–	–	–	–	–	–
Total comprehensive expense	–	–	–	–	(9,865)	(9,865)
Transactions with owners						
Share-based payments – value of employee services	–	–	82	–	–	82
Proceeds from share issues	2,333	4,240	–	–	–	6,573
Total transactions with owners	2,333	4,240	82	–	–	6,655
Balance at 31 December 2019	6,438	184,256	16,225	--	(195,428)	11,491

The notes on pages 79 to 86 are part of these parent company financial statements.

The presentation of called up share capital and share premium in the period December 31, 2018 has been restated with respect to a calculation error in the amount of £2,192,000. The restatement resulted in an increase in called up share capital and a decrease in share premium. Prior to the restatement, at 31 December 2018 called up share capital was £1,913,000 and share premium was £182,208,000.

Velocys plc statement of cash flows

for the year ended 31 December 2019

	Note	**2019 £'000**	2018 £'000
Cash flows from operating activities			
Operating loss before tax		(10,200)	(33,972)
Depreciation of property, plant and equipment	8	6	–
Impairment of subsidiaries	9	3,449	33,288
Share based payments		16	58
Changes in working capital			
Trade and other receivables		(1,523)	(1)
Trade and other payables		1,013	(113)
Cash consumed by operations		(7,239)	(740)
Tax credit received		384	–
Net cash used in operating activities		(6,855)	(740)
Cash flow from investing activities			
Intercompany balances		66	(31,365)
Purchase of property, plant and equipment	8	(33)	–
Interest received		53	5,510
Net cash generated from/(used in) investing activities		86	(25,855)
Cash flows from financing activities			
Proceeds from issues of shares and convertible loan notes	13	7,000	23,065
Costs of issuing shares and convertible loan notes	13	(427)	(628)
Net cash generated from financing activities		6,573	22,437
Net movement in cash and cash equivalents		(196)	(4,158)
Cash and cash equivalents at beginning of year		1,803	–
Exchange movements on cash and cash equivalents		(115)	5,961
Cash and cash equivalents at end of year		1,492	1,803

The notes on pages 79 to 86 are part of these parent company financial statements.

Notes to the financial statements of Velocys plc

1. General information

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

Velocys plc is a public limited company listed on AIM.

2. Accounting policies

The principal accounting policies applied in the preparation of these parent company financial statements are the same as those of the Company unless otherwise specified. The additional accounting policy for the parent company relates to the Investments in subsidiaries (see note 9). The policies have been consistently applied to each year presented unless otherwise stated.

Basis of preparation

The basis of preparation is the same as the Company, as set out on page 47 of the consolidated financial statements. The parent company has taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate income statement and related notes and not to publish a separate statement of other comprehensive income. The comprehensive loss for the parent company for the year was £9,865,000 (2018: loss £22,698,000).

Going concern

The going concern of Velocys plc is intrinsically linked to that of its subsidiaries, through which it trades in the UK and the US. The going concern basis of preparation is consistent with that set out for the Company. See page 47 of the consolidated financial statements.

Accounting developments

New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2019:

- IFRS 16 *leases*

The Company also elected to adopt the following amendments early:

- *Annual Improvements to IFS Standards 2015 – 2017 Cycle.*

IFRS 16 *Leases*

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use leased item) and a financial liability to pay rents are recognised. The only exceptions are short-term and low-value leases.

Velocys plc has reviewed all its leasing arrangements over the last year considering the new lease accounting rules in IFRS 16. The standard will primarily affect the accounting for the Company's operating leases.

Velocys plc activities as a lessor are not material and Velocys plc does not expect any significant impact on the financial statements related to lessor activities. However, there may be additional disclosures related to these activities that will be required for 2020 and subsequent years.

Velocys plc has applied this standard on the mandatory adoption date of 1 January 2019. Velocys plc has applied the simplified transition approach and will not restate comparative amounts for the year prior to adoption. Right-of-use assets for property leases are measured on transition as if the new rules had always been applied. All other right-of-us assets are measured at the amount of the lease liability on adoptions (adjusting for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on Velocys plc in the current or future reporting periods or on foreseeable future transactions.

Financial risk management policies

Financial risk management policies are set out in the Strategic report on page 12, and in note 26 of the consolidated financial statements.

Capital management policies

Capital management policies are set out in note 26 of the consolidated financial statements.

3. Critical accounting estimates and judgements

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

Notes to the financial statements of Velocys plc (continued)

3. Critical accounting estimates and judgements (continued)

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

Item of critical estimate	Note
Investment in subsidiaries – impairment assessment	9
Share based compensation	12

4. Exceptional items

Items that are significant by virtue of their size or nature, which are considered non-recurring and which are excluded from the underlying profit measures used by the Board's Executive Committee to monitor and measure the underlying performance of the parent company are classified as exceptional items. They include, for instance, impairments to the parent company's investments in subsidiaries. Exceptional items are included within the appropriate parent company income statement category but are highlighted separately in the notes to the financial statements.

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

	2019 £'000	2018 £'000
Impairment of investment in subsidiaries	(3,322)	(33,288)
Loans with subsidiaries	(127)	–
Total	(3,449)	(33,288)

At the end of 2019 and 2018, the parent company reviewed for impairment its investments in subsidiaries in light of the respective closing market capitalisation and concluded that an impairment was required. As a result of this analysis Velocys plc recorded an impairment of £3,322,000 (2018: £33,288,000) related to its investment in subsidiaries.

5. Revenue

The Company adopted IFRS 15 on 1 January 2018, using the full retrospective transition method. The Company generates revenue through contracts with its subsidiary companies to provide a license for the use of its intellectual property associated with the catalyst and reactors both of which have been specifically designed and over which the parent company and its subsidiaries holds a significant number of patents. Royalties are invoiced and paid in accordance with the Company transfer pricing and royalties polices which states Velocys plc will share in 50% of the license fees earned by its subsidiaries.

For the year ended 31 December 2019, the parent company recognised royalty revenue of £538,000 (2018: nil).

6. Income tax

	2019 £'000	2018 £'000
Current tax:		
R&D tax credit relating to prior years	202	152
R&D tax credit relating to current year	(539)	(300)
Current tax total	(337)	(148)
Income tax total	(337)	(148)

Due to the availability of losses incurred in the year, there is no charge to corporation tax. The parent company recognised £337,000 for R&D tax credits in 2019 (2018: £148,000).

The actual tax credit for the current and previous year is lower (2018: lower) than the theoretical amount that would arise using the tax rate for the reasons set out in the following reconciliation.

	2019 £'000	2018 £'000
Loss before income tax	(10,200)	(28,314)
Tax calculated at domestic tax rates applicable to losses	(1,938)	(5,380)
Tax effects of:		
Expenses not deductible for tax purposes	2	8
Impairment loss not deductible for tax purposes	655	6,108
Unutilised/(utilised) tax losses	1,281	(736)
R&D tax credit	(337)	(148)
Income tax total	(337)	(148)

The impairment loss not deductible for tax purposes represents the impairment of investment in subsidiaries as described in note 9.

The applicable tax rate was 19% (2018: 19%).

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. Unrecognised UK deferred tax balances have been measured at 19% (recognised: 17%).

7. Deferred tax

The parent company has not recognised a deferred tax asset or liability in 2019 (2018: £nil).

	2019 £'000	2018 £'000
Unrecognised		
Deferred tax assets		
Trading losses	(5,952)	(8,579)
Total	(5,952)	(8,579)

At 31 December 2019, the Company had a net unrecognised deferred tax asset of £5,952,000 (2018: £8,579,000) arising from trading losses since incorporation. No recognition (2018: £nil) of the net deferred tax asset has been made at 31 December 2019 on the grounds of uncertainty over its recoverability in light of the Company's nascent revenue streams and commitment to continued investment in the development of its biorefineries, and therefore there is no impact on the current or prior year's income statement.

All of the unrecognised deferred tax asset (2018: all) is anticipated to remain available indefinitely to offset against future taxable trading profits.

8. Property, plant and equipment

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

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

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

An impairment loss in respect of property, plant and equipment would be reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the loss was recognised, or if there has been a change in the estimate used to

Notes to the financial statements of Velocys plc (continued)

8. Property, plant and equipment (continued)

determine the recoverable amount. A loss is reversed only to the extent that the assets carrying amount does not exceed that which would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2019	Furniture and Fixtures £'000	Total £'000
Cost		
At 1 January 2019	–	–
Additions	33	33
At 31 December 2019	33	33
Accumulated Depreciation		
At 1 January 2019	–	–
Charge for the year	6	6
At 31 December 2019	6	6
Net book amount		
At 31 December 2019	27	27

In 2019, Velocys plc purchased furniture and fixtures for its offices. There were no property, plant and equipment in 2018.

9. Investments in subsidiaries

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

The carrying amounts of the parent company's Investments in subsidiaries are reviewed at each balance sheet date, or when events or changes in circumstance indicate their carrying value may not be recoverable, to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. To the extent the carrying amount exceeds the recoverable amount, the difference is recorded as an expense in the Income statement. The recoverable amount used for impairment testing is the higher of the value in use and fair value less costs of disposal.

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

Critical estimates and judgements

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

As set out in note 17 to the consolidated financial statements, an impairment assessment was carried out on the parent company's investment in subsidiaries and an impairment was indicated. Velocys plc used the same basis for calculating the recoverable amount to determine the total value of the three subsidiaries held by the parent company, based on the judgement that there is limited value attributable to the parent company. The parent company has both equity and debt investments in its subsidiaries, which are compared to the recoverable amount. On this basis, the impairment assessment indicated that the carrying value of the investments in subsidiaries was higher than the recoverable amount, determined by fair value less costs of disposal. As a result, an impairment of £3,322,000 (2018: £33,288,000) was recognised in 2019.

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

	2019		2018	
	Capital contributions to subsidiaries £'000	Total investment in subsidiaries £'000	Capital contributions to subsidiaries £'000	Total investment in subsidiaries £'000
Investments in subsidiaries				
At 1 January	12,377	12,377	14,441	14,441
Movement in loans	–	–	–	–
Capital contributions	66	66	31,365	31,365
Impairment of subsidiaries	(3,322)	(3,322)	(33,288)	(33,288)
Foreign exchange	–	–	(141)	(141)
At 31 December	9,121	9,121	12,377	12,377

Velocys plc has direct investments in the following subsidiary undertakings.

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

The following companies are subsidiaries of the Company whose immediate parent is not Velocys plc.

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

The following are dormant subsidiaries.

Dormant subsidiaries	Incorporated	Immediate parent	% Holding
Oxford Catalysts UK Limited*	England and Wales	Velocys plc	100
Velocys Project Solutions, LLC***	Delaware, USA	Velocys (USA Holdings) LLC	100
Velocys Renewables LLC**	Ohio, USA	Velocys (USA Holdings) LLC	100
Ashtabula Energy, LLC***	Delaware, USA	Velocys Project Solutions, LLC	100
Bayou Fuels One LLC	Delaware, USA	Velocys Projects Ltd	100
Bradford GTL LLC***	Delaware, USA	Velocys Project Solutions, LLC	100
JAB Land-Ashtabula**	Ohio, USA	Ashtabula Energy, LLC	100
Susquehanna GTL LLC***	Delaware, USA	Velocys Project Solutions, LLC	100
Westlake GTL, LLC**	Delaware, USA	Velocys (USA Holdings) LLC	100

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

Notes to the financial statements of Velocys plc (continued)

10. Trade and other receivables

	2019 £'000	2018 £'000
Trade and other receivables – current	58	7
Amounts due from group undertakings	1,342	–
Total	1,400	7

Amounts due from group undertakings consists of loans with subsidiaries. All amounts are unsecured and have one year terms, renewable on an annual basis then being repayable on demand. Interest is charged on all intercompany loans at 5%.

11. Trade and other payables: current

	2019 £'000	2018 £'000
Trade payables	62	2
Accruals	135	73
Amounts due to group undertakings	891	–
Total	1,088	75

Due to their short maturity, the fair value of trade and other payables is not considered to be materially different to their carrying values, based on discounted cash flows.

All trade payables are due in 60 days or less (2018: 60 days or less).

Amounts due to group undertakings consists of loans with subsidiaries. All amounts are unsecured and have no fixed date of repayment. Interest is charged on all intercompany loans at 5%.

12. Financial instruments

Financial assets

Velocys plc classifies, measures and accounts for its financial assets in the same way as the Company as a whole (see note 26 to the consolidated financial statements).

Financial risks

The risks that the parent company faces are intrinsically linked to those of the Company, see note 26 to the consolidated financial statements. No mitigation of this risk is taken at parent company level.

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

	31 December 2019
	Assets at amortised costs £'000
Assets	
Cash and cash equivalents	1,492
Trade and other receivables excluding non-financial assets	53
Loans receivable from subsidiaries	1,342

	31 December 2018
	Assets at amortised costs £'000
Assets	
Cash and cash equivalents	1,803
Trade and other receivables excluding non-financial assets	7

Liabilities	31 December 2019 Financial liabilities at amortised cost £'000
Trade and other payables excluding non-financial liabilities	62
Loans payable to subsidiaries	891

Liabilities	31 December 2018 Financial liabilities at amortised costs £'000
Trade and other payables excluding non-financial liabilities	88

In 2019 and 2018, no share options were exercised which result in no obligation for the Company to fund the Employee Benefit Trust. For additional information related to Share-based payments, see note 15 to the consolidated financial statements.

13. Share capital

Disclosures in respect of share capital of the Velocys plc are provided in note 27 to the consolidated financial statements.

14. Commitments

The Company has no right to use asset leases (2018: nil) and no capital commitments (2018: nil).

15. Other information

Short-term employee benefits

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

Pensions

The Company operates various defined contribution pension schemes for its employees. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefit derived from the current and prior periods.

The amount charged to the Income statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable and contributions actually paid are accrued. The Company has no further payment obligations once the contributions have been paid.

In 2019, in connection with new employment agreement certain employees of the Company had their new agreements written under Velocys plc. In prior years, these employee's employment agreement were under Velocys Technologies Ltd, in which their costs were recorded.

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

	2019 number	2018 number
Administration	6	–
Total average headcount	6	–

Their aggregate remuneration comprised the following items.

	2019 £'000	2018 £'000
Wages and salaries	303	–
Social security costs	31	–
Other pension costs	20	–
Share-based payments granted to directors and employee	16	–
Total remuneration	370	–

Directors' remuneration

Details of the remuneration paid to directors of the parent company are provided in the Directors' remuneration report on pages 30 to 34.

Notes to the financial statements of Velocys plc (continued)

15. Other information (continued)

Auditor's remuneration
Details of remuneration paid for the audit of the Company are disclosed in note 11 to the consolidated financial statements.

16. Related parties

The participation of each of Ervington Investments Limited and Lansdowne Partners in the July 2019 Placing constitutes a related party transaction under the AIM Rules as each is a substantial shareholder (within the meaning of the AIM Rules). Ervington Investments Limited subscribed for 46,666,666 Placing Shares at the Placing Price of 3 pence per share, and Lansdowne Partners subscribed for 49,373,800 Placing Shares at the Placing Price. The Directors consider, having consulted with Numis, the Company's nominated advisor, that the terms of the related party transaction were fair and reasonable.

17. Post financial position events

The following events took place after 31 December 2019.

Fundraise of £21 million completed in July 2020

On 14th July 2020, the Company announced that it had completed the fund raising of £21 million (before expenses) through a Placing, Retail Offer and Open Offer. This was confirmed through a General Meeting held on 14th July 2020 and has been announced to the market. Net of expenses the Company has received £19.65m, which will ensure that it has sufficient funding to continue as a going concern for at least 12 months. The Company expects that it will receive income from other sources including customers through licensing and sales of engineering services which will extend this timeline.

COVID-19 coronavirus pandemic

During March 2020 both the UK and the US Governments implemented a social distancing policy, which meant that we had to close operations at our offices and sites in Oxford, Houston and Plain City and put in place a work from home policy. This has meant that it is difficult to have as many productive face to face meetings as we might have had otherwise but nonetheless progress has been made on all aspects of the business.

Directors, secretary and advisors to the Company

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Velocys plc registration no.
05712187

Directors
Philip Holland (Non-Executive Chairman)
Henrik Wareborn (Chief Executive Officer)
Andrew Morris (Chief Financial Officer)
Sandy Shaw (Non-Executive Director)
Darran Messem (Non-Executive Director)

Company secretary
Jeremy Gorman

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