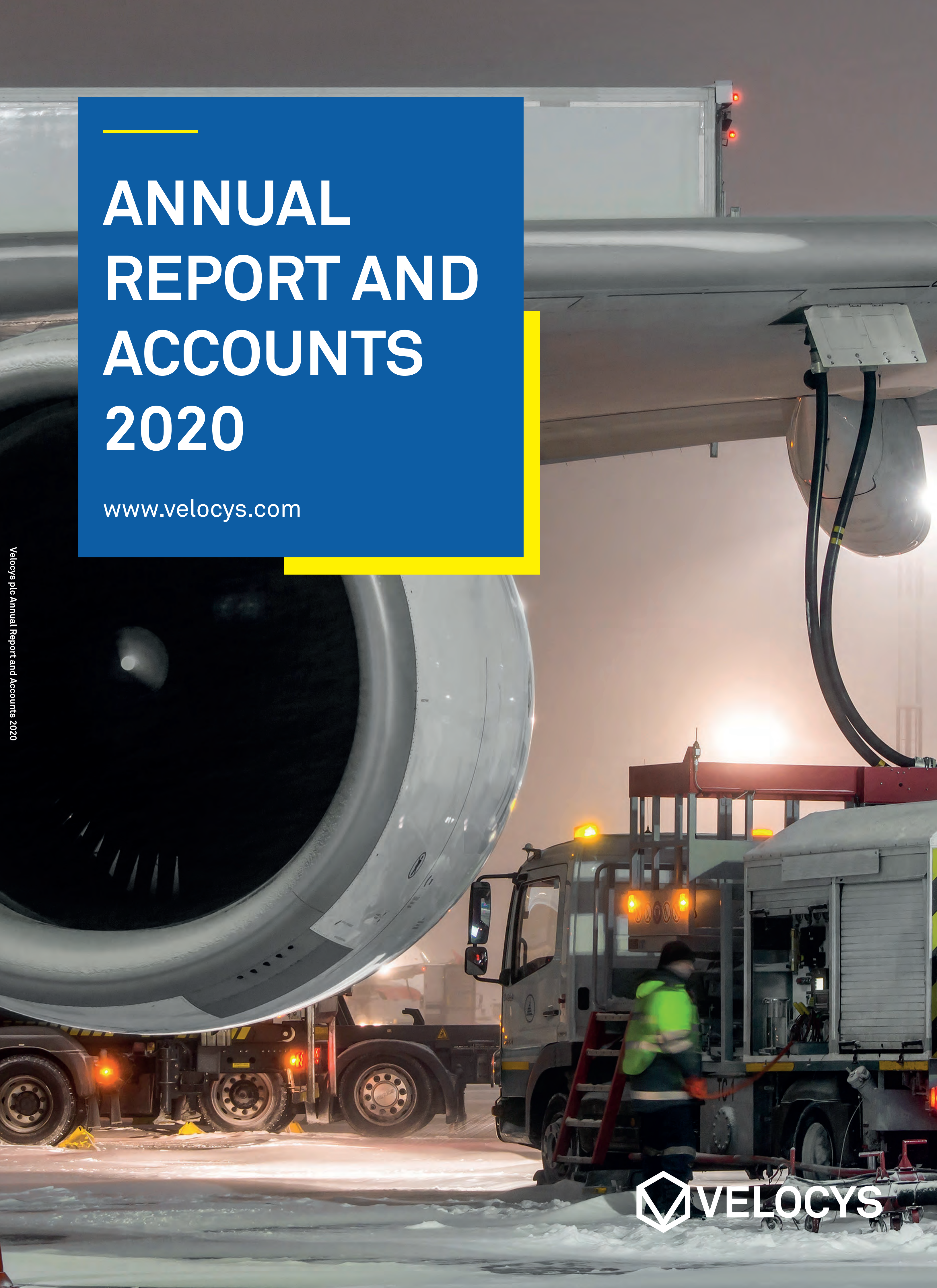
ANNUAL REPORT AND ACCOUNTS 2020

www.velocys.com

Velocys plc Annual Report and Accounts 2020



VELOCYS

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 municipal solid waste and residual woody biomass.

Velocys is at present 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 reactor technology developed at the Pacific Northwest National Laboratory. Velocys is headquartered in Oxford in the United Kingdom.

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VELOCYS

Contents

Highlights

- Fund raise of £21m (before expenses) in July 2020

- Total deferred revenue of £8.2m including £2.1m invoiced and received from commercial customers in 2020 (deferred to 2021 per revenue recognition accounting policies)
- Effective control of costs, reducing operating expenses by 7%
- Cash at year end of £13.1m (2019: £4.8m)

- Appointed and on-boarded Worley as our engineering partner to manage delivery of our integrated technology globally

- Licensors on-boarded including TRI, Arvos, Air Liquide, Linde and Haldor Topsoe

- Additional £0.5m F4C grant from the UK Department for Transport secured for the Altalto waste to jet fuel project

- Granted planning permission for the Altalto Immingham site
- Delivered four Fischer-Tropsch (“FT”) reactors and completed catalyst loading for Red Rock Biofuels in Oregon, US
- Successfully completed the NEDO1 demonstration project in Nagoya, Japan achieving 1500 hours of integrated conversion of wood chips to sustainable aviation fuel (“SAF”)

- Invited to be a founding member of the UK Government Jet Zero Council
- Appointed to the boards of the Renewable Transport Fuel Association and the Biotechnology Innovation Organisation

Our Mission

Our mission is to deliver the next generation of sustainable fuels to decarbonise aviation and heavy-duty transport. We have designed, developed and now license our patented proprietary Fischer-Tropsch technology which enables the production of low carbon sustainable fuels from a variety of waste materials. It is the turnkey solution to fuel producers that significantly reduces both greenhouse gas emissions and key exhaust pollutants.

Our Solution

- **Here-and-now technology solution**
- **Low carbon sustainable drop-in fuel**
- **No modification to aircraft engines**
- **No changes to airport infrastructure**

International Leadership

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

Jeff McDaniel
VP New Projects

Heinz Robota
VP Technology

David Bate
General Counsel, VP Legal & Compliance

Helen Lillistone
Group Financial Controller

Lak Siriwardene
Head of Communications & Sustainability

> **‘Velocys is now firmly in the phase of delivering our commercial scale technology to our clients’ commercial projects.’** *Henrik Wareborn, CEO*

Our Technology

Patented Fischer-Tropsch Reactor

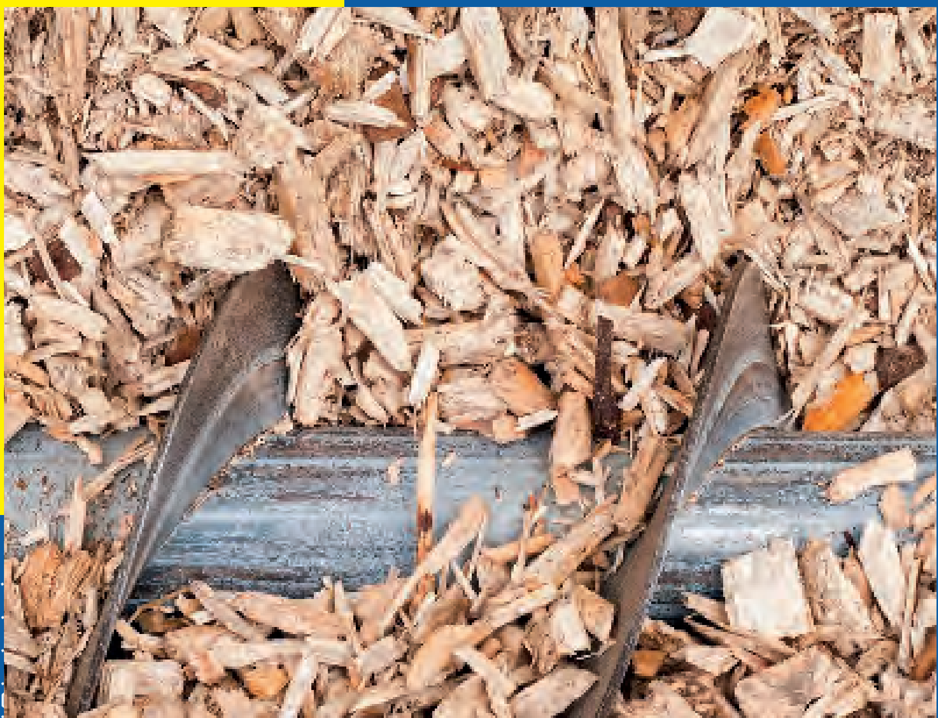
A commercially-ready reactor and catalyst for Fischer-Tropsch synthesis of hydrocarbons. Developed in our laboratory and demonstrated at full scale in the real world, our reactor and catalyst allows the production of advanced biofuels from large, sustainable carbon sources such as household waste and forest residues.

Feedstock

A fuel supply based entirely on abundant sustainable feedstocks.

Municipal Solid Waste

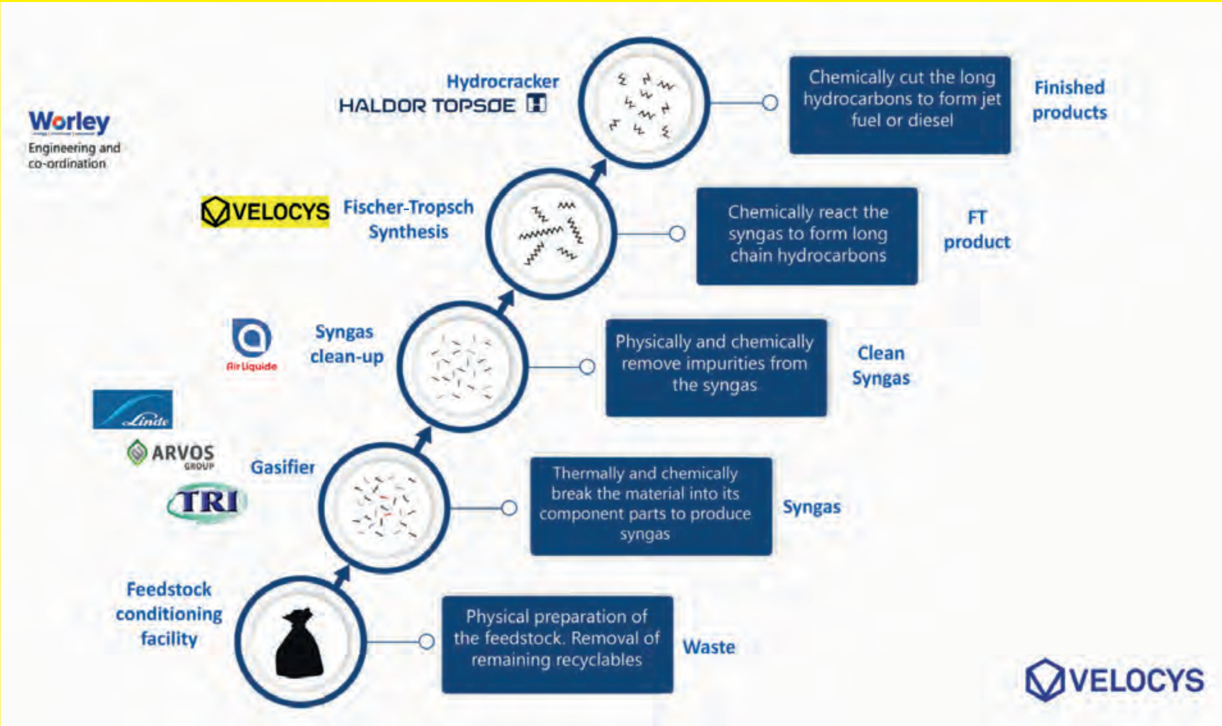
Millions of tonnes of waste is landfilled or incinerated.



Wood Chips

A high carbon content by-product of forest management and sustainably sourced.

Integrated Technology Package



Process overview

Industry leading licensors were selected to create an integrated technology solution consisting of five process steps (including Velocys' own technology), each of which has been demonstrated at commercial scale.

Cleaner burning drop-in fuel

Diesel made using Velocys process

Diesel from filling station

Sustainable aviation fuel

- Approved globally and **can be used immediately** in all commercial aircraft without any change to engines or airport infrastructure
- Creates better **air quality** with emissions reductions of 90% in soot and up to 100% of sulphur oxides
- Removes **hundreds of thousands of tonnes of waste** per year therefore avoiding landfill or incineration
- **70% reduction** in greenhouse gas impact compared with the same volume of conventional jet fuel
- Utilised with Carbon Capture and Storage to achieve **zero-carbon flight**

Global reach

- Our technology can be licensed anywhere in the world.
- A geographic presence and breadth spanning continents.
- Delivering on client projects.
- An integral role in carbon footprint reduction.

OFFICES

- Houston, Texas, USA
- Plain City, Ohio, USA
- Oxford, UK

FLAGSHIP PROJECTS

- Mississippi, USA
- Immingham, UK

OUR ENGAGEMENT

- USA
- Japan
- Spain
- United Arab Emirates

'Aviation accounts for about 1 billion metric tons or about 3% of global CO_2 emissions annually. Every metric ton of petroleum-based jet fuel burned produces 3.15 tons of CO_2 in addition to other emissions such as nitrogen oxide, soot and other radiative-forcing mechanisms. Research suggests that climate impacts of all propulsion related emissions could be two to four times larger than those of CO_2 emissions alone. There are a number of efficiency-based and operational changes to reduce climatic effects, such as engine improvements, fleet renewals, lower altitude flying and others. But the science is clear – the industry cannot solve its sustainability challenges through efficiencies and alternative fuels are necessary to make real progress.' *Clean Skies for Tomorrow, November 2020*

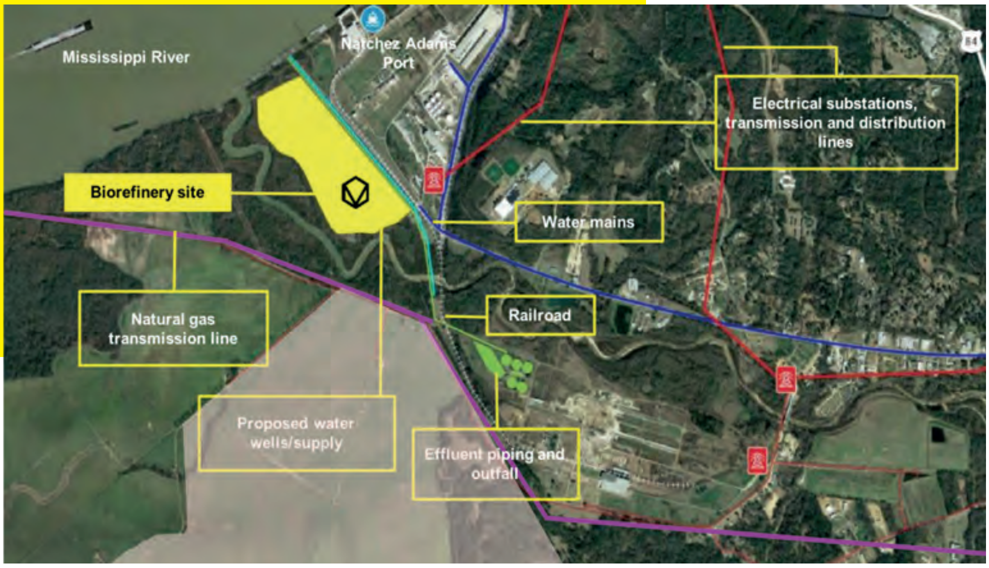
Projects

Altalto, Immingham, UK

- The proposed plant will turn household and commercial waste into clean-burning sustainable aviation fuel with at least 70% lower greenhouse gas emissions (potentially over 100% with carbon capture and storage).
- Planning consent granted in May 2020.
- The plant will produce enough SAF to power over 1000 flights from London to New York each year.

BRITISH AIRWAYS

Altalto investor



Bayou Fuels, Mississippi, US

- The proposed plant will create SAF utilising woody biomass feedstock.
- Negative emission transportation fuels enabled through carbon capture and storage.
- The project has progressed with all technologies demonstrated at commercial scale.

Clients

Red Rock Biofuels

Commercial woody biomass-to-FT fuels project in Oregon, USA.

- Velocys licensing FT technology, supplying reactors and catalyst.
- Reactor manufacturing and catalyst loading completed in 2020.
- Plant expected to be operational in 2022 with an estimated output of 15 million gallons/year of SAF and Renewable Diesel.

Toyo Engineering Corporation

Biomass-to-jet-fuel demonstration facility in Nagoya, Japan.

- Japanese publicly-funded project to demonstrate jet fuel production from woody biomass.
- TOYO Engineering, Mitsubishi Power, JERA and JAXA consortium.
- Velocys FT technology for a pilot-scale reactor and catalyst delivered, with technical support for operational and production phases.

Chairman's Statement

2020 has been a challenging year for Velocys, but I am pleased to report that the Company was able to meet the challenges the COVID-19 Pandemic presented. By year end, the Executive Team had delivered on the objectives set by the Board, the result of which was the Company being in a much stronger financial position than when it began the year.

Introduction

Our first priority at the onset of the pandemic was to ensure that we were able to provide our employees with as safe a working environment as possible, whilst maintaining their ability to work efficiently and effectively. We closed all our offices and arranged for all employees to be able to work from home, providing additional technical support where necessary to enable them to work in a safe and secure home environment.

Four achievements during the year were of particular note, and demonstrated our ongoing progress in delivering our strategy:

- The successful completion of the manufacturing of four FT reactors and catalyst and delivery to our client Red Rock Biofuels' Lakeview site in Oregon. In 2021 we look forward to working closely with Red Rock to assist with start-up and commissioning of its bioenergy plant.
- Our application for Planning Consent for the Altalto waste to jet fuel project was approved in May 2020 by North East Lincolnshire Council.
- July saw a successful and oversubscribed fund raise of £21.0 million, and further contributions from both British Airways and Shell towards the technical development of our Altalto project.
- We successfully concluded the wood chips to SAF NEDO demonstration project in Nagoya, Japan with our partner, Toyo Engineering Corporation, and look forward to delivering engineering services to the planned larger scale NEDO 2 project managed by the same consortium in Japan. We will deliver our FT reactors and catalyst in due course to NEDO 2 subject to approvals and funding by the local partners.

The year saw a significant increase of media exposure for Velocys, which was evidenced by the number of high quality interviews with the CEO, extensive coverage by the national and international broadsheets and also in the technical press. UK Government support for our Altalto Immingham Project was validated by the mention of Velocys at the Downing Street daily briefing by the Secretary of State for Transport, Grant Shapps in June 2020 and the invitation for Velocys to be represented on the Jet Zero Council.

Strong US policy support for domestic sustainable fuel production, including SAF with negative carbon intensity has been recently reaffirmed by the new administration. This is very positive for our Bayou Fuels project in Mississippi and our other potential clients in the US.

Whilst there has been significant attention drawn to the potential use of hydrogen and electric propulsion as a means of reducing the carbon emissions of air travel, we remain convinced that the use of Sustainable Aviation Fuel provides the only near-term opportunity for the airline industry to reduce its carbon footprint at commercial scale and pace.

Management and Board

There were no changes to the Board membership during the year, however on 30 September 2021Sandy Shaw will be standing down from the Board after 9 years of loyal service. We will be conducting a search for a replacement for Sandy during the first half of 2021, with the intention of the new NED bringing complementary skills to the Board as we enter an intensive phase of commercialisation of our technology. The Board has continued to enjoy strong and cooperative relationships with the Executive Team.

We were able to strengthen our leadership team during the year with the appointment of Helen Lillistone as Group Financial Controller. Helen has over 20 years' experience in senior finance and accounting roles within the biotech sector and has already made significant contributions to strengthening and upgrading our financial and accounting processes.

During 2021, we have further strengthened the leadership team with the appointment of David Bate as General Counsel. David is an experienced business lawyer with 26 years global energy sector experience at executive level, encompassing extensive international project experience across a wide range of countries.

The Board's Committees have continued to work constructively in supporting the Board, and I would like to thank both Sandy Shaw and Darran Messem for their efforts in chairing the Remuneration and Audit & Risk Committees respectively. I would like to particularly thank Sandy Shaw for her efforts in realising a further year of LTIP's for the broader leadership team, ensuring the alignment of the leaders of the business with the shareholders. We do not envisage increasing the size of the Board this year, but will do so at a later time commensurate with the growth of our business.

Corporate governance

The Board has maintained its emphasis on good governance following the ten principles of the Quoted Companies Alliance Code (see page 28 for additional details). With the anticipated appointment of a new Non-Executive Director in Q3 2021, and following the standing down of Sandy Shaw, there will be a change in the Chairs of the Audit & Risk and Remuneration Committees to accommodate the skills and experience of the new Non-Executive Director to the Board.

Fund raise

The Company successfully raised £21 million before expenses through a Placing, Retail Offer and Open Offer. This enabled a variety of UK investors to participate in an oversubscribed offer. We were extremely pleased with the support shown by existing investors and to see new high-quality institutional investors join our shareholder register and thank all those who participated in the fund raise. The fund raise has enabled our team to concentrate on delivery and strategy execution, building shareholder value during this time.

Outlook

We look forward to completing the post-planning consent and final phase of technical pre-development work of our Altalto Immingham Project in Q2 2021. In addition, we are taking advantage of the learnings we have gained working closely with our engineering partner, Worley, and accelerating the technical development of our Bayou Fuels Mississippi Biorefinery Project. This will make both projects highly standardised and modular, ready for the final FEED work and future projects.

With the successful fund raise in 2020, the Company is focused on delivering its reference projects as well as seeking new commercial opportunities to deploy our technology and support current and prospective customers.

The recent announcement of a collaboration agreement with Toyo Engineering Corporation demonstrates that we are delivering and creating opportunities for enhancing revenues from third-party developers, whilst opening up a new market for Velocys in Japan and the Far East.

We are now highly focused on accelerating the customer adoption of our technology. This requires us, as mentioned in our 2020 fundraise, to expand our current manufacturing capability, ensuring it has the capacity to achieve quality and on time delivery of our reactors at the scale required by multiple clients at various locations over the next number of years.

The Executive Team will continue to engage with respective host Governments and other stakeholders during 2021 to secure the necessary policy support to unlock the economic delivery of Sustainable Aviation Fuels to the airline industry at the scale and pace required to meet their aggressive Net Zero obligations.

Philip Holland
Chairman
14 May 2021

CEO's Report

Velocys is in a good position to take advantage of the growing demand for climate change mitigation.

Our global opportunity

Velocys is in a good position to take advantage of the growing demand for climate change mitigation, specifically the decarbonisation of commercial aviation. The aviation sector is staking its post COVID-19 recovery on Net Zero commitments to win back its passengers and licence to operate by host governments. For medium and long-haul flights, the only realistic prospect for the industry to decarbonise is to use fuel with a chemical composition similar to its current fossil fuel but with net zero or negative carbon intensity over the full life cycle.

To avoid the need to replace or modify billions of dollars' worth of aircraft turbines and airport refuelling systems, and for aviation safety reasons, the net zero fuel must be ASTM approved and safe to blend seamlessly into the current fuel systems.

Synthetic Paraffinic Kerosene ("SPK") using the Fischer-Tropsch pathway (our enabling technology) is already ASTM approved for use at up to 50% blend with fossil based kerosene in commercial aviation globally. When SPK is made from sustainable feedstocks such as municipal, agricultural or forestry waste, it qualifies as Sustainable Aviation Fuel. The World Economic Forum estimates that these resources are sufficient to supply up to 95% of the world's jet fuel demand. This pathway is also the key to e-fuels (using CO2 as the carbon source, with renewable energy) which unlock an even greater additional supply.

Velocys provides the central processing technology which allows full commercial scale production of SAF using this pathway. We have integrated our technology into an end-to-end solution for site owners and developers to deploy on any site with more than 500,000 tonnes of available solid waste per year. Beyond the sharp reduction of CO_2 emissions, our technology provides additional societal value through the diversion of this waste from landfills or incineration, as well as a final jet fuel with far superior air-quality properties than the fossil fuel it replaces.

The year in focus

Our Chairman has highlighted our main accomplishments for 2020, of which I am extremely proud. Our whole team demonstrated resilience and agility in adapting to the new work conditions imposed by the COVID-19 restrictions globally and managed to accelerate delivery of our engineering solutions to our clients as well as delivering hardware in the form of reactors and catalyst. I am pleased to say we did not need to furlough any employee in the US nor in the UK.

I am also particularly pleased with our zero lost time incidents in the workplace at both our own sites and equally at our client sites where we have had Velocys engineers deployed during the year.

We have continued to tightly manage our overhead costs throughout 2020 by continuing the trend of effective cost management initiated at the end of 2018. My vision for Velocys is to remain capital light and low on fixed overhead costs while accessing a global capability to deliver our technology in its broadest sense via partners and third-party developers.

Our Financial review details our progress towards positive cashflow, which is our main strategic goal at this point. This enables us to unlock the full potential of future revenue generation from our technology, to meet the needs of all our stakeholders. We value our shareholder support in this final, but most important stage, from R&D to full scale commercialisation. I am very grateful for how that support was demonstrated by our early and new shareholders' engaged participation in our oversubscribed fund raise in July 2020.

Our commitment to sustainability

Velocys manages its own direct energy and resource consumption carefully as detailed in our Environment, social and governance report on page 19. However, our overarching environmental impact is that our technology enables our clients to reduce net life cycle greenhouse gas emissions radically for their end-users.

For example, 5 commercial scale Velocys enabled biorefineries each producing over 100 million litres of sustainable synthetic fuels would reduce net CO_2 emissions by up to 3 million tonnes per year. This is equivalent to removing over 1 million average size petrol driven cars from the roads in the UK – but with the added benefit that the savings are in a much more difficult sector. Hence for investors, there are few other equally focused and near-time opportunities to contribute to a massive reduction of high impact CO_2 emissions alongside improving air quality at altitude and around our airports.

Outlook

I am thankful for the reliable policy support we have received from both the US and UK governments during 2020, and recognise that continuing policy support is essential for the acceleration of the supply of SAF globally. It is wholly unrealistic to expect new process technologies, using sustainable feedstocks, to be able to compete on price with a mature technology such as fossil oil without a significant penalty for combusting fossil oil and a corresponding reward for producing net zero carbon fuels. Such policy support is already available and mature in parts of the US, and is under development in the UK and across the EU. In addition, global aviation rules for decarbonisation under the Carbon Offsetting and Reduction Scheme for International Aviation ("CORSIA") also become mandatory from 2026.

During 2021, Velocys will continue to be an active participant in consultations with governments and regulators on this topic, for example as a member of the Jet Zero Council in the UK.

In conclusion, I want to thank my Board, Velocys colleagues, shareholders and broader stakeholders for unfailing support during such a dramatic and transformational year as 2020, putting us in a position to accelerate the adoption of our climate change mitigation technology globally over the next few years.

Henrik Wareborn
Chief Executive Officer
14 May 2021

Financial review

With the oversubscribed fund raise in July raising £21m and the net assets of the company increasing, Velocys has the opportunity to pursue our strategic goals.

Revenues

The Company[1] recognised revenue of £0.2m (2019: £0.3m). The 2020 revenue was primarily the result of professional services for, and the delivery of reactor components to, Toyo and professional services related to ongoing reference projects. Gross profit decreased to £0.1m (2019: £0.2m).

The Company has a total of £8.2m of deferred revenue as at 31 December 2020 (2019: £6.0m) from licensing, reactor and catalyst sales which will be recognised when the project performance obligations have been met. Providing an integrated package of goods and services typically means our revenues and corresponding costs can only be recognised once a customer's project reaches a specific performance milestone.

Expenses and income

Administrative expenses before exceptional items reduced by 7% to £9.2m (2019: £9.9m). The reduction before exceptional items is principally the result of reduced corporate overheads including a reduction in travel costs of 71% due to the COVID-19 pandemic.

The exceptional items credit of £0.1m recorded in 2019 was for part-recovery of a loan made to an associate ENVIA totalling £0.5m, offset by an impairment of £0.4m to the value of land held as an asset.

Other income totalling £0.4m mainly consisted of £0.3m from the first tranche of the Future Fuels for Flight and Freight ("F4C") grant awarded by the UK Department for Transport. In 2019 other income of £0.1m was recognised from the sale of assets associated with the final closing of the ENVIA plant.

Operating losses

Operating losses were £8.8m (2019: £9.6m before exceptional items credit of £0.1m). The reduction of the operating loss is principally the result of a decrease in administrative expenses.

After exceptional items, the Company recorded an operating loss of £8.8m (2019: £9.5m operating loss).

Assets and cash

The net assets of the Company were £13.1m, which is an increase of £10.7m compared to 2019. This increase was principally the result of an increase in cash, and trade and other receivables offset by a decrease in inventories and an increase in deferred revenue and other liabilities.

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

The cash inflow to the Company in 2020 was £9.2m (2019: £1.4m cash outflow) principally being cash generated from financing activities of £19.6m, attributed to £19.6m received net of expenses from the fund raise that was successfully completed in July, less £0.8m used in investing activities and £9.6m used in operating activities. The Company continues to carefully manage its underlying cost base and spends 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 assessment

The Board has assessed the long-term potential of the Company's in-process technology assets as at 31 December 2020, and concluded that whilst there has been a positive change in the market capitalisation value (£108.0m at 31 December 2020 compared to £11.5m at the previous year end), it is not recommending the reversal of historical impairments at this stage given the wider economic recovery considerations and relatively early phase of the COVID-19 vaccination roll-out programmes globally.

The recoverable value is determined by comparing the higher of the value in use and the fair value less costs of disposal. Previously, given the early stage of the Company's commercialisation plans, the share price of the parent Company was deemed the most accurate indicator of value.

Alongside the share price of the parent Company, the Board also considered the following factors and changes:

- The Company successfully completed the manufacture and sale of reactors and catalyst for commercial use during 2020;
- The present value of estimated future net cash flows, using the Company's internal forecasts, exceeded the market capitalisation value;
- Global demand forecasts for sustainable aviation fuel far outweigh the available supply expected to be available from new plants for many years;
- Government policy support has strengthened as countries look to meet targets and commitments for carbon reduction;
- Potential competing technologies, such as hydrogen, require changes to infrastructure whilst the Velocys technology does not face these additional barriers to market entry; and
- Company revenues have not grown versus the prior year and remain modest, and there have not been any significant new customer arrangements signed during 2020.

Therefore, taking all of the above factors into account, the Board considers that the Company's current commercial position, without any new customer contracts or additional investors into the reference projects, outweighs the other positive aspects but is confident that no impairment is required and at the same time does not recommend reversing previous impairments at this time. The Company remains confident that the internal progress made during 2020 combined with an improvement in the economic environment, will enable the Company to reassess the recoverable value in due course, which could lead to the reversal of impairments of approximately £20m less accumulated amortisation at the date of reversal.

The parent company, Velocys plc, has both equity and debt investments in its subsidiaries, which are compared to the recoverable amount. The impairment assessment of equity investments showed that no impairment indicators were identified and, as a result, no impairment was recognised (2019: £3.3m). The parent company also assessed loans due from subsidiaries and recorded a provision for expected credit losses ("ECL") of £1.8m (2019: £0.1m). Any impairment or ECL provision is eliminated on consolidation and therefore is not seen in the consolidated financial statements.

Ventech Trustees claim

In December 2020, the Company announced that it had signed a full and final *de minimis* settlement agreement with no material effect on the financial statements and global mutual release of all current and potential future claims between the bankruptcy trustees of Ventech Engineers LLC, a former commercial partner, and the Company.

Fund raise

In July 2020 Velocys raised a total of £21.0m (before expenses) via a Placing, Retail Offer and Open Offer.

Net proceeds of the capital raising are being used to:

- Complete the process engineering phase of FEED for the Altalto Immingham Project;
- Complete the fund raising for the FEED stage of the Mississippi Biorefinery Project;
- Further strengthen the Company's intellectual property portfolio and trade secrets protection;
- Provide working capital for operating costs
- Evaluate and design a de-bottlenecking of the reactor core manufacturing line in the United States to reach a production capacity of more than 12 Fischer-Tropsch reactors per year (twice the current capacity); and
- Implement learnings from a post-operative analysis of demonstration reactors for the benefit of clients via updated operating manuals and training.

Financial review continued

Future funding

With the successful fundraise in July 2020 of £21.0m (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 and the Mississippi Biorefinery Project prior to securing funding for the next stage of FEED to financial close; (ii) the completion of the new design of the upgraded manufacturing facility; (iii) the continued process of on-boarding one or more strategic investors to provide the final stages of development funding for either or both the Altalto Immingham Project and the Mississippi Biorefinery Project; (iv) revenue from the ongoing pre-FEED engineering work from the February 2021 announcement of the collaboration agreement with our customer Toyo Engineering in Japan for the development of their first commercial plant in Japan; (v) the current overhead cost run rate.

The Company's plan is to continue working with our investment partner British Airways in the Altalto Immingham Project, having secured £1.0m additional non-dilutive investment in May 2020 and securing further investment partners into the project along with completing all the engineering design and commercial arrangements required to reach financial close on the project.

At the same time in the US we are also working to secure investment by one or more strategic partners into the Mississippi Biorefinery Project, which has undergone a design review and optimisation during the last half of 2020, increasing its capacity and attractiveness to investors and SAF offtakers. We are also working with several other interested parties in Europe, the US and the Middle East developing their own projects potentially using our FT technology within an integrated technology package into a complete plant. Whilst the Board is confident that one or more of these future plans will be achieved, nothing is contracted as at the date of signing these financial statements.

Going Concern

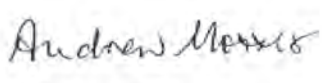
The Company will assess its cash requirements from these activities and determine at what stage it needs to raise additional funding. This funding may be achieved from one or a combination of a capital raising (including the possibility of a placement of ordinary shares within the next 12 months) or the realisation of certain assets; selling additional technology licences; performing Pre-FEED engineering work for customers (such as the technical services agreement made with Toyo Engineering recently for their commercial plant in Japan); UK or US Government loans or grants; and selling non-core intellectual property.

Following financial close of one or both reference projects in late 2022 or early 2023, the Company's funding requirements will depend on the final structure of each of the biorefinery project consortia and on additional third party projects requiring our FT technology or the integrated technology packages, including our FT technology, we have developed over the last few years. Risks and uncertainties regarding our two reference projects are detailed on pages 23 to 26.

Based on the Company's latest forecast and cash flow projections approved by the Board, additional funding will be required within twelve months of the date of signing these financial statements. Consequently, these conditions indicate the existence of a material uncertainty that may cast doubt on the Company and Velocys plc's ability to continue as a going concern.

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.

The Board will be proposing a Special Resolution at the forthcoming Annual General Meeting to approve the disapplication of the pre-emption rights. This may be used by the Company in securing additional working capital in the year to come.



Andrew Morris
Chief Financial Officer
14 May 2021

Environment, social and governance report

Sustainability

Our business is centred on championing and reducing the effect of people on the environment and as a Company our main goal is to enable the production of clean, sustainable fuels. This results in a significant positive impact on climate change and a meaningful corporate social responsibility ethic. Velocys' commitment to acting and developing sustainably lies within our corporate strategy and goals. As part of this commitment, we appointed Lak Siriwardene as our sustainability officer and have now developed our first dedicated ESG policy.

As an organisation we are also mindful of the impact of our own operations. We recognise a shared responsibility in the conduct of our business to minimise the depletion of natural resources, reduce waste and lessen our own contribution to climate change. There is an understanding that sustainability encompasses human and social aspects as well as environmental ones. We monitor our manufacturing operations including catalyst, reactor, and supply chain, as well as our administrative operations for use of energy, travel, water, waste and usage of material resources. For example, in order to reduce direct CO2 emissions, we restrict business class air travel and through the recent experience of COVID-19 pandemic we have found that replacing travel for face to face meetings with video conferencing is more time and cost efficient whilst also reducing our carbon footprint.

Much of how we approach the Company's sustainability is driven by the UN's 17 Sustainable Development Goals ("SDGs") which encompass a blueprint for a more sustainable future. These goals covering eradicating poverty, promoting health and well-being, education, equality, sustainable development and consumption, climate action, conserving the marine and land environment, peace, and justice are interconnected.

These goals guide us as to how we, as a Company, can make a difference and are increasingly being acknowledged by investors, as well as our customers and suppliers. Although we are a small company, we consider ourselves to be in the process of making meaningful contributions to a number of these SDGs and the UN 2030 Agenda for Sustainable Development. To the right we highlight some examples of our alignment.

5 GENDER EQUALITY	We believe that social mobility and gender equality are important ways of improving diversity alongside the well-being of our people.
8 DECENT WORK AND ECONOMIC GROWTH	Our technology allows biorefineries to be built to produce sustainable fuels which in turn promotes economic growth and a decent work environment. Locally, biorefineries will bring hundreds of millions of pounds of investment, create hundreds of jobs during construction and provide a boost to the local economy through long term employment and wider supply chain benefits.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Global clients can benefit from our innovative technology offering to positively impact their industry and utilise infrastructure, mobilise people and give back to society.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Waste (municipal and forestry) which would be an environmental contamination hazard is utilised in our process unlocking the potential of net zero with no fossil fuel usage. Providing sustainable aviation fuel, without the need to modify or replace existing aircraft engines and airport infrastructure, has a positive impact through the avoidance of unnecessary resources being deployed.
13 CLIMATE ACTION	Sustainable fuels burn efficiently and significantly reduce greenhouse gas emissions and harmful particulate matter aiding better air quality and community health, living and travel.

Environment, social and governance report
continued

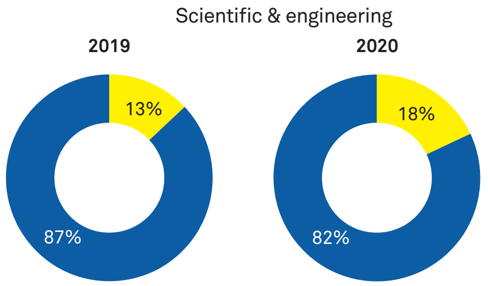
Employees

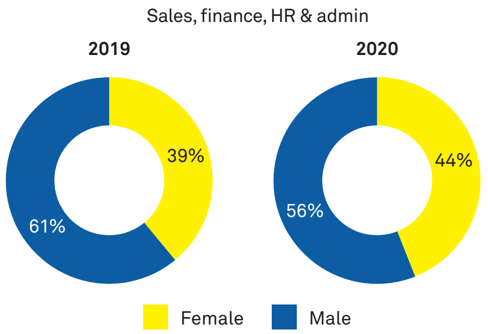
Our employees are at the heart of everything we do, and their expertise and well-being allow our Company to exist, grow and make that difference both internally and externally. We strive to be a responsible employer, which includes regular staff evaluation reviews, career development and training opportunities, pension and medical schemes, and welfare monitoring and support. We are an equal opportunity employer and welcome qualified individuals of diverse nationalities, backgrounds and race.

We believe respect, kindness and care should be naturally bestowed and part of our Company foundation to make our employees feel safe, secure, valued and empowered to have more than satisfactory roles, be recognised for their contribution, and included in the strategic drive of the business. Our culture is one of each voice matters and the executive and leadership team promote an open access mode of communication. Regular surveys and talk forums including a monthly town hall meeting are held to create a positive two-way flow of business and welfare communication. Externally, we equally value our stakeholder engagement and alongside direct communication we also utilise online channels to disseminate relevant company news to engage and open debate on our environmentally conscious company offering and net positive impact on society.

Of the 33 global employees working for Velocys at 31 December 2020, 30% were female (2019: 27%) and one of the five members of the Board was female (2019: one of the five members).

The percentage of female employees broken down by areas of the business was as shown below.





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. 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.

The Velocys sites in the US have logged over 139,320 operating labour hours without a Lost-Time Accident ("LTA") since July 2018. The UK site continues to operate without any lost time, bringing the total number of operating labour hours without an LTA to over 414,043 in the UK.

During 2020 a dedicated COVID-19 response committee was formed to focus on keeping our employees safe whilst working from home or travelling on Company business.

Our climate risk and reporting strategy

The Financial Stability Board's Task Force on Climate-related Financial Disclosures ("TCFD") recommendations set an important framework for understanding and analysing climate-related risks, and we are committed to regular, transparent reporting to help communicate and track our progress.

The table below sets out the relevant TCFD recommendations and summarises the progress we have made during the past year.

TCFD recommendation	Our progress in 2020
Governance Describe the Board's oversight of climate-related risks and opportunities	Our Board is responsible for the overall strategic plan which includes assessing both short-term and longer-term risks and opportunities, including those relating to climate change. The Board receives regular updates throughout the year.
Describe management's role in assessing and managing climate-related risks and opportunities	Our Audit & Risk Committee provides oversight through the periodic review of the Company's risk management framework, which includes reviewing the processes and controls for ensuring risks are identified and managed appropriately. Our Executive Directors ensure the risk management responsibilities are integrated into the relevant functional area, including but not limited to engineering, manufacturing, and operations.
Strategy Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	As a sustainable fuels technology company, our business model is underpinned by the shared global goal of reducing carbon emissions. Industry and consumers want to reduce their carbon footprint and many businesses are making commitments to achieving Net Zero. Sustainable aviation fuel delivers over 70% greenhouse gas reduction compared with conventional aviation fuel, thereby contributing to carbon emissions reductions. We have identified our key climate related risks over the short, medium and long-term and identified the principal risk types as resilience risk and policy risk. For further details of our climate related risks, see page 25 of our Principal risks and uncertainties.
Describe the impact of climate risks and opportunities on the organisation's business, strategy and financial planning	As a result of the assessment the Board completed in 2017 the Company changed strategy in order to pursue sustainable fuels projects only using our FT technology. This is now reflected in everything the Company undertakes.
Describe the resilience of the organisation's strategy taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Our strategy of supplying sustainable fuels technology particularly into the aviation sector, which is exceptionally hard to decarbonise, has shown great resilience because of the support offered by governments around the world for sustainable aviation fuel. This fuel production combined with Carbon Capture and Storage can provide significant contributions towards climate related scenarios including a less than 2°C scenario.
Risk management Describe the organisation's processes for identifying and assessing climate-related risks	Given that our core strategy is to pursue projects which mitigate climate related risks our processes for identifying and managing these risks are integrated into our risk management policy and associated procedures.
Describe the organisation's processes for managing climate-related risks	Velocys' risk management process covers all aspects of risk within the business but also acknowledges our core principals of pursuing the exploitation of our FT technology within the sustainable fuels sector. Any climate related risks are therefore considered throughout our risk management process.
Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	As part of the work the Audit & Risk Committee undertake is to oversee the twice annual review of the group's principal risks and uncertainties. Climate change, the transition to a lower carbon economy and physical climate-related risks such as extreme weather events have been identified as risks associated with the group's business, see page 25.
Metrics and targets Disclose the metrics used by the organisation to assess climate-related risk and opportunities in line with its strategy and risk management process	At this stage of the Groups development and given the size of the Company we have not set target metrics for the business to achieve climate-related targets as we grow, however our objectives of achieving the uptake of our FT technology to produce sustainable fuels will assist in international ambitions of achieving net zero for which we are great advocates.
Disclose scope 1, scope 2 and, if appropriate, scope 3 greenhouse gas emissions and the related risks	We aim to disclose further details on our own emissions in future reporting. However, it should be noted that as a business in 2020 we used fewer flights and more virtual meeting technology which we expect to continue to some extent in the future.

Conclusion

Velocys is a sustainable fuels technology company, we have a unique technology offering which can significantly benefit the environment and lessen the impact of heavy transport on climate change. Our values, employees, stakeholders, and environmental contribution are the essence of our Company foundation and success. We value and are committed to each of them.

Our technology which provides a sustainable solution in the purest sense is one which has a far-reaching impact on the individual, regions, industry, and governments all driving the ecosystem of economic sustainable growth.

Key performance indicators ("KPI"s) and milestones

The Company's business strategy is to license the use of our core technology, micro-channel Fischer-Tropsch Reactors with our ActoCat OMX catalyst, to produce sustainable fuels. During 2020, despite the COVID-19 crisis the Company was able to focus on the following KPIs as a measurement of the Company's success.

- Complete our supply contracts to our customers and expand revenues of the Company.
- Maintain effective cost management to ensure the most efficient use of working capital throughout the business.
- Raise awareness of our technology and its potential to reduce emissions.
- Continuously improve our core technologies and the manufacturing of the Velocys micro-channel Fischer-Tropsch reactors.
- Continue the development of our reference projects and the addition of new projects.

In 2020 the key milestones set by the Company were as follows:

- Deliver reactors and reactor components to our customer Red Rock Biofuels.
- Load catalyst into the Red Rock Biofuels reactors on site in Oregon, USA ready for installation.
- Increase capacity and optimise design of the Mississippi biorefinery project.
- Complete the fund raising for the Mississippi Biorefinery project and launch the associated FEED.
- Secure second stage consortium funding for the Immingham, UK waste-to-jet fuel project.
- Complete license agreements with all major process licensors for the Altalto project.
- Complete the Altalto process engineering phase of pre-FEED.
- Commence the design and automation of the manufacturing facility to achieve a significant increase in capacity and performance.
- Continue to strengthen the IP and trade secrets protection with new patent applications.
- 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 the 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 pages 14 and 15. The financial results are outlined in the Financial review on pages 16 to 18.

Principal risks and uncertainties

Our approach to risk

In any business there are risks and uncertainties that will have an effect on the execution of the strategy of the business and consequently on the results. At Velocys we have a rigorous approach to the risks facing the Group with the Executive Directors reviewing the risks that the Company encounters on a continual basis. The identified risks of the business are presented on this and the following pages.

The Velocys risk management process

The Executive management of the Company are principally responsible for risk but the Board is responsible for the risk framework and the management of risk. The Board aims to make sure that the Group's ability to achieve its goal exceeds the 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.

COVID-19

The COVID-19 pandemic has exacerbated some of the short-term risks facing the business and has generally increased the risks across the Group, in particular the risks relating to our key personnel and suppliers.

The Executive Directors are responsible for identifying, managing and mitigating the risks to the Company. The Audit & Risk 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 as follows:

Risk Description	Impact	Trend year on year	Mitigation	Risk rating
Financial				
Reference project funding risk	Our two reference projects require external investment to reach construction. Momentum in the sector has ensured that the use of sustainable fuels is high on the agenda for large airlines and fuel supply businesses, which will assist in the funding of these types of projects.	Level	The engineering work we have completed has optimised the design of the plants, allowing better returns to the projects. During the latter half of 2020 engagement with interested third parties increased.	**Medium**
Access to Capital	In the short term Velocys will not achieve a cashflow positive position. However once the reference projects move into FEED and new projects such as the Toyo Engineering project in Japan start engineering work the net income and cashflow to Velocys will significantly increase.	Level	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 the two reference projects that will lead to 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**

Principal risks and uncertainties continued

Risk Description	Impact	Trend year on year	Mitigation	Risk rating
Health and safety				
Pandemic risk	The current COVID-19 pandemic can lead to 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 operate.	Diminishing	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**
Political				
Policy risk	Velocys' clients rely on policy support to secure a significant explicit or implicit revenue for avoided CO2 emissions. The main risk is that political support wanes for mitigation of climate change such as decarbonisation of fuels. The US rejoined the Paris climate accords in February 2021, which is a significant positive move by the new US administration. In addition there are now more than 10 states considering or have already put in place low carbon fuel standards similar to California (according to the Jacobsen Fastmarkets report 2020). In the UK the Government have set up the Jet Zero Council of which we are a founding member	Diminishing	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.	**Medium**

Risk Description	Impact	Trend year on year	Mitigation	Risk rating
Technology				
Performance and integration risk	Our technology has been operated at scale in a commercial setting, however the biomass to fuels plants incorporate technology supplied by other licensors, which may not function or integrate as envisaged with Velocys technology and may lead to lower than expected performance.	Level	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. Commercial experience on representative feedstock is a key selection criteria for Velocys' consortium of process licensors.	**Medium**
Reference Projects execution risk	The design, construction, commissioning and operation of these first of a kind biorefineries has inherent execution risk with no guarantees that all aspects will be completed as planned.	Level	The quality of the Velocys engineering team along with our engineering partner, Worley, is key to ensuring that the projects are delivered in accordance with the planned time, budget and performance criteria. The current work on design is key to 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**
Climate Change				
Effects of climate change on projects using our technology	Flood risks which are exacerbated by adverse weather brought on by climate change has led to design adjustments to the reference projects that are being promoted by Velocys. We recently experienced an unusual weather event in Texas whereby snow and extreme low temperatures led to widespread power outages and caused severe disruption to employees working from home for several days.	Increasing	Sites chosen for projects need to be in areas that do not suffer risks of flooding. Then additional measures are taken in design to ensure that any localized flooding can be mitigated and ensure that electrical installations are significantly above the potential flood levels or that higher levees are built where necessary. Whilst the Texas event was unusual, it has heightened our awareness of climate change causing unforeseen weather patterns, and will be a key consideration in reviewing our response to such potential emergencies.	**High**

Principal risks and uncertainties continued

Risk Description	Impact	Trend year on year	Mitigation	Risk rating
Legal and Statutory				
Intellectual Property risk	There is a risk that the Company may have a breach of IP or that key staff and their expertise may leave the Company.	Increasing	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. By securing non-disclosure agreements with parties requiring knowledge of such IP to fulfil transactions of benefit to Velocys these risks are mitigated. To retain staff expertise and protect Company IP Velocys provides competitive compensation to attract and retain staff.	**Medium**
Alternative Technologies risk	Alternative technologies may be adopted in preference to Velocys' FT technology. Velocys may find it difficult to gain market share or may find itself operating in a smaller market than it had previously anticipated.	Increasing	Velocys' FT technology is considered to be quite unique in the market with significant resources having been invested in the technology to date. Technology developments such as ours operating at the current scale takes significant investment and time, providing Velocys with a competitive advantage beyond our core FT technology capability. Due to the complexity of the processes to convert solid biomass feedstocks to drop-in fuels at commercial scale, the barriers to entry are significant.	**Medium**
Human Resources				
Key Person risk	The Company has an executive and senior leadership team with significant experience of our technology and within our business sector. The departure of any member of staff could cause disruption to the development and operational activities of the Company. A number of our staff have recently retired or are coming up to retirement age.	Increasing	Succession planning within the senior leadership team is part of the objectives of the Executive team to manage constructively with our Human Resources department. The Board formally considers succession planning as part of our board evaluation in 2020 (see the Nomination and Governance report on page 35).	**Medium**

Approved by the Board and signed on its behalf by:

Henrik Wareborn
Chief Executive Officer
14 May 2021

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 AIM Rule 26, the Board has determined to follow the QCA Corporate Governance Code ("QCA Code"), published by the Quoted Companies Alliance ("QCA"), which sets out a minimum best practice standard for small and mid-size quoted companies, particularly AIM companies.

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 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 12 and 14, 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 General Meeting, the whole Board including the Chairman and Chief Executive Officer are available before and after the meeting for further discussions with shareholders. Due to the UK Government's COVID-19 measures in force, it was not practical for shareholders to attend the 2020 AGM, however the Company intends subject to government guidelines and safety considerations that appropriate arrangements will be in place for shareholders to attend and ask questions at the time of the 2021 AGM.

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. A number of such meetings took place in 2020 by way of video conference. Relevant feedback from shareholder discussions is advised to the Board. Other members of the Board including the Chairman and the Chair 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 info@velocys.com.

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

Velocys is committed to being a good employer and endeavours to train 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 Key Performance Indicators ("KPI's") can be found on pages 19 to 22.

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 Group Risk Register. Further information on Risk Management can be found page 23. This is reviewed and updated as 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 23 to 26.

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 30. 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	Nomination & Governance Committee
Number of meetings held in 2020	7	5	5	6	2
Attendance* by:					
Philip Holland	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).

The Board regards each of the Non-Executive Directors as being fully independent.

There were no changes to the Board or to the committee memberships during the year.

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 Chairman on 10 December 2019, and previously served as Senior Independent Director from 1 January 2019. Philip holds a BSc in Civil Engineering from Leeds University and a MSc in Engineering and Construction Project Management from Cranfield School of Management. He has extensive experience in managing large scale oil and gas projects around the globe. In 1980, he joined Bechtel Corporation and managed major oil and gas projects in a wide range of international locations. In 2004, he joined Shell as vice president of projects, Shell Global Solutions International. In 2009, Philip became Executive Vice President Downstream Projects in Shell's newly formed projects and technology business and in 2010 he was appointed as Project Director for Shell's Kashagan phase 2 project in Kazakhstan, and subsequently the Shell/QP Al Karaana petrochemicals project. Since 2013, he has operated as an independent project management consultant. Philip joined the Board of Enquest plc in August 2015, where he chairs its Safety, Climate & Risk Committee and is a member of its Remuneration Committee. Philip has also joined the board of KazMunayGas in August 2020, chairing the Nomination & Remuneration Committee and the Strategy & Portfolio Management 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 & Risk 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 over 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, and was also appointed Chair of their ESG Committee in late 2020.

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 2020, 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. The Board has recently agreed that relevant training courses should be made available to Directors, and a formal record of training has been implemented.

There is a process for ensuring that any new director receives advice, including from the Company's nominated adviser and external lawyers where appropriate, on his/her responsibilities as a director of an AIM 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 Board sub-committees, and to comment on procedures or any relevant matters. Average scores for each question are measured against relevant scores in the previous two years to help identify trends, and are also assessed in absolute terms. The scoring and any comments are assimilated into a report on an unattributed basis, and the results of the evaluation are considered by the Board and each sub-committee in open session.

Where appropriate, actions arising from such reviews are implemented. Previous evaluations have resulted in improvements to timing and quality of management information; the provision to the Board of more detailed information on individual projects; and improvements to the structure and workings of committees. Following the 2020 Board evaluation, the Board has agreed to place a greater emphasis on strategic initiatives/business risk. In addition, there will be increased emphasis on making training courses available to Directors, and a formal record of training has been implemented.

An annual performance evaluation of the Chairman is carried out, led by the Senior Independent Director, and takes into account the views of all directors.

Succession planning at Board and committee level is formally reviewed on an annual basis, and the Board has reviewed a succession plan for all Board members and senior management. 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 & Governance Committee as to whether individual directors are recommended for re-election.

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

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

The Board ensures that the Company has the means to determine that ethical values and behaviours are recognised and respected through the adoption of appropriate policies, including an Anti- Corruption and Bribery 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:

Corporate governance report (continued)

Audit & Risk Committee

The members of the Audit & Risk Committee are currently Darran Messem (Chair) and Sandy Shaw (Senior Independent Director). Meetings are held not less than four times a year and are based on the work programme set out in the Audit Committee Guide published by the QCA.

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

Further information is set out in the Audit & Risk Committee report, which can be found on pages 33 to 34.

Remuneration Committee

The members of the Remuneration Committee are currently Sandy Shaw (Chair) and Darran Messem (Non-Executive Director). Meetings of the committee take place not less than three times a year.

Due regard is paid to the Investment Association Principles of Remuneration. At the 2021 AGM, a resolution will be proposed seeking shareholder approval of the Directors' Remuneration Report set out on pages 36 to 40.

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 (Senior Independent Director) and Darran Messem (Non-Executive Director). The committee met twice during 2020. 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.

Further information is set out in the Nomination & Governance Committee report, which can be found on page 35.

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 2021 Annual General Meeting in light of the continuing COVID-19 health and safety requirements. Details of arrangements for the 2021 Annual General Meeting are set out in the Company's notice of 2021 AGM which is being published at the same time as this Annual Report and Accounts and are available on the Company's website. Further information is shown under QCA Principle 2 above.

Copies of the Annual Report and Accounts 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.

Audit & Risk Committee report

Dear Shareholder
On behalf of the Board, I am pleased to present the Audit & Risk Committee report for the year ended 31 December 2020.

Committee members
The members of the Audit & Risk Committee are currently Darran Messem (Chair) and Sandy Shaw (Senior Independent Director). Meetings are held not less than four times a year and are based on the work programme set out in the Audit Committee Guide published by the QCA.

Roles and responsibilities
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 financial reporting, provides a forum through which the external Auditors report, and reviews and monitors their independence and the provision of additional services.

Committee meetings
Meetings are attended by committee members, the Chair, Chief Executive Officer and Chief Financial Officer. The external Auditors are invited as appropriate. The Committee normally meets at least once a year with the external Auditors without the executive directors being present.

Both committee members attended each of the five meetings held during the year ended 31 December 2020.

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.

Financial statements
The Audit & Risk Committee has considered the integrity of the Company's 2020 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. In both cases, the committee reported to the Board that in its view the statements were fair, balanced and understandable.

Significant areas
The significant reporting matters and judgements considered by the Committee during the year included:

- Going concern – see page 18, for consideration from the Board regarding going concern;
- Valuation of assets (consolidated company) and investment in subsidiaries (Velocys plc); and
- The impact of the COVID-19 pandemic.

As noted in the Financial Review and disclosed in further details in note 17 of the consolidated financial statements, the Company considered the reversal of historical impairments relating to In-process technology assets. Whilst the assessment was performed on a basis consistent with prior years, and indicated a significant increase in the equity value of the parent company, the Committee was in agreement with Management's recommendation to maintain a prudent approach and not record a reversal of impairments at 31 December 2020. A key consideration was the impact of the COVID-19 pandemic on the airline industry and the global economy more generally.

Audit review
The Audit & Risk Committee monitors the Group's relationship with the external Auditors, PricewaterhouseCoopers LLP, to ensure that external independence and objectivity has been maintained. The Committee has reviewed PricewaterhouseCoopers LLP's audit process, the findings from the audit of the 2020 financial year, and the effectiveness of the external audit process. The Committee reviewed the quality and cost effectiveness of the external audit, and the independence and objectivity of the external Auditors.

External Auditors
PricewaterhouseCoopers LLP have provided audit services to the Group since 2008. Performance has been reviewed annually and audit partner rotation requirements have been observed. The Committee obtained confirmation from PricewaterhouseCoopers LLP that their independence and ethics policies complied with FRC requirements, and that they remain independent and maintain internal safeguards to ensure their objectivity. No contractual obligations exist that restrict the Company's choice of external auditors and the Committee is satisfied that the external Auditors remain independent.

Audit & Risk Committee report (continued)

Non-audit services

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, and on the engagement of any former employees of the external Auditors. Further details of fees paid to PricewaterhouseCoopers LLP for audit work and minor non-audit services relating to international employee taxation services can be found in note 11 to the consolidated financial statements.

Internal audit

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

Approved on behalf of the Audit & Risk Committee by:

Darran Messem
Non-Executive Director and Chair of the Audit & Risk Committee
14 May 2021

Nomination & Governance Committee report

Dear Shareholder
On behalf of the Board, I am pleased to present the Nomination & Governance Committee report for the year ended 31 December 2020.

Committee members
The members of the Nomination & Governance Committee are currently Philip Holland (Chairman of the Board and Chair of the Nomination & Governance Committee), Sandy Shaw (Senior Independent Director) and Darran Messem (Non-Executive Director).

Committee meetings
Meetings are held not less than twice a year and are attended by committee members. The Chief Executive Officer and Chief Financial Officer may also be invited as appropriate.

All committee members attended the two meetings held during the year ended 31 December 2020.

Roles and responsibilities
Under its Terms of Reference, which can be found on the Company's website, the Nomination & Governance Committee inter alia:

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

The significant matters considered by the Committee during the year included:

- Sandy Shaw stands down as a Non-Executive Director at the conclusion of her third consecutive three year term of office on 30 September 2021. The Committee has considered the skills, knowledge and experience and diversity required from a new Non-Executive Director, in particular that they are qualified to be appointed as Chair of the Audit & Risk Committee. Following a careful selection process, a specialist recruitment agency has been engaged to assist with this process, and an appropriate announcement will be made in due course.

Approved on behalf of the Nomination & Governance Committee by:

Philip Holland
Chairman of the Board of Directors and Chair of the Nomination & Governance Committee
14 May 2021

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 traded on the Alternative Investment Market ("AIM") of the London Stock Exchange 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.

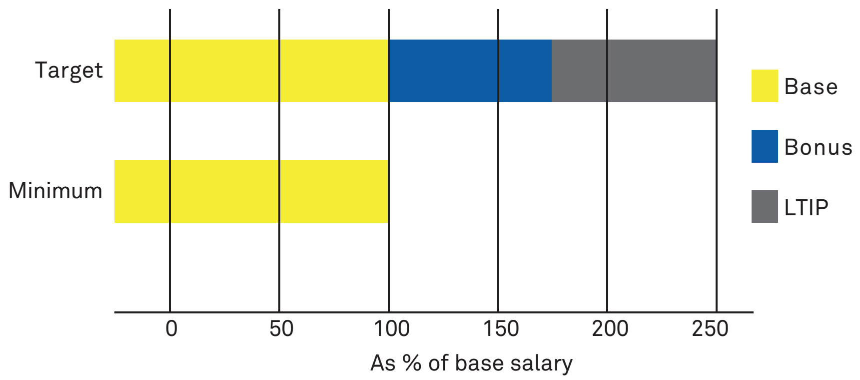
Remuneration Committee
The following served as members of the Committee throughout the year ended 31 December 2020:
- Sandy Shaw (Chair)
- Darran Messem (Non-Executive Director)

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. No external advisors were engaged during the year ended 31 December 2020. 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 2020, 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. Due to the continuing economic impacts of the COVID-19 pandemic and the need for the Company to conserve its funds, no bonuses have been approved or salary rises implemented in respect of performance for the year ended 31 December 2020, assessed in the first quarter of 2021. This applies consistently to all employees of the Company. In the course of 2020 a discretionary bonus in respect of 2019 performance was awarded.

Long-term Incentive Plan ("LTIP")

The Committee believes that an LTIP scheme should provide Executive Directors and other senior managers the appropriate incentivisation, focus, retention and reward for achievement, that is aligned with shareholders' interests. 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. The award for 2020 was not made until after the year end in February 2021 and has been shown in the post financial position events on page 84.

As part of the process of developing the Executive Directors' remuneration packages and then developing the Scheme, 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 General Data Protection Regulation 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

2020 Grants

The Executive Directors were eligible for annual 2020 awards under the Scheme, however these awards were not granted until February 2021 and therefore have not been shown here but instead information on the 2020 LTIP has been shown in the post financial position events on page 84. They were issued under the current 2012 Scheme Rules and in line with the amounts given for the 2019 annual awards.

2019 Grants

1. The two Executives were granted long term incentives by way of one–off grants of Options as part of their engagement in 2018 comprising of:
   a) A "**Commencement Award**" of 2,000,000 Options to each Executive Director at a strike price of 10 pence 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 15 pence 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 39 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 Enterprise Management Incentive ("EMI") Options with a value equivalent to 75% of base salary. The Options have a strike price of 3 pence, 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 39.

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 3 pence strike price and on the same terms. Awards for the 2020 LTIP to eligible senior management were made in February 2021 and consequently information has been shown in the post financial position events on page 84.

In December 2019, 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 had

Directors' remuneration report (continued)

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 3 pence and vests rateably over three years from date of grant.

Headroom Calculations

The total of awards set out above represents a potential maximum dilution of current shareholders' interests of 6.7% taking into account historic awards outstanding (5.3%) and options granted in 2021 (1.4%). The Remuneration Committee believes the 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 the Executives Directors' 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) with an additional contribution of between 1% to 3% to match the employee's own contribution up to the maximum allowable under US pensions law.

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

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 Directors 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 fee 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 2020 and 2019 is as follows. This is less than the aggregate limit of £250,000 specified in Article 92 of the Company's Articles adopted on 22 June 2011.

	2020 **£**	2019 £
Aggregate fees paid to Chairman and Non-Executive Directors	172,000	219,079

Directors' remuneration (audited)

Aggregate emoluments excluding pension contributions made by the Company for current and former directors in 2020 totalled £1,041,204 (2019: £737,249), and Company pension contributions were £47,500 (2019: £54,832).

The directors who held office at 31 December 2020 received the following remuneration in relation to the year ended 31 December 2020, with the bonuses paid in 2020 relating to their performance in respect of 2019.

Name of director	2020 Salary & fees £	2020 Other benefits(1) £	2020 Bonus £	2020 Pension £	2020 Total £	2019 Salary & fees £	2019 Other benefits £	2019 Bonus £	2019 Pension(2) £	2019 Total £
Executive										
Henrik Wareborn	250,000	19,969	187,500	25,000	482,469	250,000	7,118	15,625	29,263	302,006
Andrew Morris	225,000	17,985	168,750	22,500	434,235	225,000	6,365	14,062	25,569	270,996
Non-Executive										
Sandy Shaw	50,000	–	–	–	50,000	50,000	–	–	–	50,000
Philip Holland(3)	72,000	–	–	–	72,000	51,418	–	–	–	51,418
Darran Messem	50,000	–	–	–	50,000	50,000	–	–	–	50,000
Pierre Jungels(4)	–	–	–	–	–	67,661	–	–	–	67,661
Aggregate emoluments and pension contributions	647,000	37,954	356,250	47,500	1,088,704	694,079	13,483	29,687	54,832	792,081

(1) Other benefits include medical cover for Executive Directors and their dependents.
(2) Amounts stated for pensions in 2019 for Henrik Wareborn and Andrew Morris include proportionate amounts for 2018 of £4,263 and £3,069 respectively, paid in 2019 when the schemes were set up.
(3) Philip Holland was appointed Chairman of the Company on 10 December 2019.
(4) Pierre Jungels resigned from the Board on 10 December 2019 and received fees of £67,661 during the period 1 January 2019 to 10 December 2019.

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 2020 no such payments were made to serving or former directors (2019: nil).

Details of all directors' shareholdings are disclosed on page 43 in the Directors' report.

Details of options held by the directors at 31 December 2020 were as follows.

Name of Director	At 31 December 2019	Granted	Exercised	Lapsed	At 31 December 2020	Exercise price (£)	Earliest date of exercise	Date of expiry	Exercisable at 31 December 2020
Henrik Wareborn									
Commencement	2,000,000	–	–	–	2,000,000	10.00p	13/12/19	12/12/29	2,000,000
Performance	2,000,000	–	–	–	2,000,000	15.00p	31/12/21	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				2,000,000
Andrew Morris									
Commencement	2,000,000	–	–	–	2,000,000	10.00p	13/12/19	12/12/29	2,000,000
Performance	2,000,000	–	–	–	2,000,000	15.00p	31/12/21	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				2,000,000
Total	19,875,000	–	–	–	19,875,000	–	–	–	4,000,000

No options were exercised by directors during 2020. The total charge for share-based payments during the year in respect of directors was £28,000.

Option grants 2020:

No new grants were made in 2020, but awards were made in February 2021 under the Scheme in respect of 2020 annual awards entitlements. See page 41 of the Directors' report for further information.

Option grants 2019:

Commencement Awards. In connection with the commencement of service of Mr. Wareborn and Mr. Morris, it was agreed to award each of them 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, 13 December 2019. The balance of the Options vested on 4 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

Directors' remuneration report (continued)

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") Awards:
During 2019, 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 13 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 13 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 and the last date for exercise is the day immediately preceding the tenth anniversary of the date of grant.

The Velocys 2012 Share Option Scheme rules
The 2012 scheme rules have been reviewed by the Remuneration Committee as well as with external advisors and apart from some minor adjustments of the rules to accommodate retirees leaving and other amendments of leaver provisions in the rules allowing some level of Board discretion, the Committee considers that the Scheme Rules should be renewed for another ten year period. Subject to these minor adjustments the Remuneration Committee has recommended to the Board to propose the new Scheme for shareholder approval at the 2021 Annual General Meeting.

Share price
The market price of the parent company's shares as at 31 December 2020 was 10.15p (2019: 1.79p) and the range during the year was 1.68p to 14.65p (2019: 1.17p to 5.24p). Details of options and the cost of share-based payments are given in note 15 of the consolidated financial statements.

Gender and diversity
The Committee recognises the importance of ensuring that neither gender nor diversity considerations create a pay gap or other differentiation in workforce remuneration considerations. However, as a Company of less than 35 employees performing technical roles within their respective areas of expertise, comparability is currently limited.

Approved by the Board and signed on its behalf by:

Sandy Shaw
Senior Independent Director and Chair of the Remuneration Committee
14 May 2021

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2020

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 12 to 26.

Dividends

The Directors do not recommend any dividend for the year ended 31 December 2020 (2019: nil).

Research and development

The Company's research and development ("R&D") activities relate primarily to the development of first-of-a kind sustainable fuel projects in the UK and the USA. Research continues on catalysis as well as development work on parts of the reactor design that can affect the scale of the reactors in the field. Details of R&D costs are shown in note 10 of the consolidated financial statements.

Donations

The Company made no political donations during 2020 (2019: nil).

Post financial position events

F4C grant from the Department for Transport

In January 2021, the Company received £290,000 of grant funding for the Altalto waste-to-fuels project from the UK Department for Transport ("DfT"), under the Future Fuels for Flight and Freight Competition ("F4C"). The DfT made a total of £0.5m available to Velocys under Phase Two of the scheme and the Company expects to receive the remaining £210,000 in the first half of 2021 subject to completion of project milestones.

US SBA loan forgiveness application

In April 2020, the Company received 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 early days of the COVID-19 crisis. This unsecured loan was 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 met the forgiveness criteria and submitted its application to the SBA in January 2021.

Altalto Joint Development Agreement

In January 2021, by mutual consent of the parties to the Altalto Joint Development Agreement, Shell International Petroleum Company Limited ("Shell") withdrew from the agreement. Velocys and British Airways plc ("British Airways") will continue to work together in order to secure finance for the Altalto Immingham plant. Shell will no longer have an option over shares in Altalto Limited (a subsidiary of the Company), nor any rights or obligations in relation to the Altalto project. The Altalto project has no immediate funding calls and will continue according to its existing development plan. There is no direct financial impact on Altalto or Velocys as a result of these changes.

Collaboration Agreement with Toyo Engineering Corporation

In February 2021, the Company announced the signing of a collaboration agreement with Toyo Engineering Corporation ("Toyo") to start the development of their commercial projects to produce sustainable aviation fuel and other renewable fuels in Japan. The agreement follows on from the successful work already conducted in 2020 between Velocys and Toyo at the biomass-to-jet-fuel demonstration facility in Japan. The Company will grant an exclusive right for Toyo to secure and use the licence and technical services of the Velocys Fischer-Tropsch technology for a commercial plant in Japan. An advance deposit of $4.0m (£3.0m) was received in 2019 of which $3.5m (£2.6m) remains in escrow, which will be offset against future revenues.

Grant of share options to Executives and employees

In February 2021, the Company granted options totalling 14,088,205 to Executives and senior management in respect of 2020 performance and options totalling 500,000 to new employees who joined the Company during 2020. The Executive Directors, Mr. Wareborn and Mr. Morris received a total of 3,264,503 and 2,938,053 options respectively, allocated equally between time-based and performance-based options. The exercise price was set at the time of grant at 7.86 pence being the highest of the share price at the last fund raise, the share price on the date of grant and the weighted average share price for the month prior to grant. The total number of options granted represents a dilution of current shareholders' interests of 1.37%. There is no impact on the financial results for the year ended 31 December 2020.

Extension of the Altalto option agreement

In March 2021, the Company announced that it has agreed with British Airways to extend the Altalto option agreement to 31 March 2022. Exercise of the option would give both parties, Velocys and British Airways, equal equity ownership (50/50) of Altalto Ltd and the right to appoint a director. There is no impact on the financial results for the year ended 31 December 2020.

Directors’ report (continued)

Directors

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

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

While the Company’s Articles of Association require that all directors are subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of not more than three years, the directors have decided that, in line with best corporate governance practice, at the 2021 Annual General Meeting all of the directors will again retire and offer themselves for re-election. Sandy Shaw will stand down as a Non-Executive Director on 30 September 2021, the conclusion of her third three-year term of office. For further information, please see the Nomination & Governance Committee report on page 35.

The S172(1) Statement of Directors’ Duties

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

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

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

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

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

The Company’s governance and decision making processes, which the Board considers are appropriate to the size and complexity of the business, are set out in the Corporate governance report on pages 28 to 32. The periodic Board meetings and Committee meetings have a rolling agenda and are structured to ensure the requirements of Section 172 are fully considered when key strategic decisions are made. Below we describe how the Directors fulfil their duties by considering the potential impact of decisions made on our key stakeholders:

Risk Management and Long-Term Consequences

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

For further details of how we manage the risks in our business please see pages 23 to 26 for our Principal risks and uncertainties.

Engagement with our Employees

During the year, where the impact on the working environment has been unprecedented with the coronavirus pandemic, the protection of and communication with our employees has been utmost in the Board’s collective thoughts and decision making. We have set up a Covid Response Team (“CRT”) chaired by one of our Vice President’s in the US, with representatives from across the Company. The objectives of the CRT is to monitor the differing governmental bodies’ rules and laws about what our employees are allowed to do in terms of coming to work but also to assist with the working from home that we have all had to do for the last year. The CRT also monitors the spread of the virus to advise the Executive Directors and the Board of the actions that the Company needs to take. A principal decision was made in consultation with the Board to implement 100% work from home procedures for all employees.

The success of the CRT has meant that we have been able to safely complete the manufacturing of our reactors for Red Biofuels in Oregon from two sites in Alabama and Wisconsin. It has also allowed us to complete the loading of the catalyst into those reactors in Oregon during November 2020, without incident or any employee catching the virus. We have also been able to complete the commissioning of the NEDO demonstration project in Japan during April 2020 prior to the first full lockdown. The Executive Directors together with the CRT have held regular "townhall" meetings during which we discuss the activities of the Company but also the mental health of our employees and the continued protection of our teams in the US and the UK. In terms of talent retention, we have continued with the three-year Long-Term Incentive Plan, which includes all our senior staff and any new joiners. More information about this can be seen in the Directors' remuneration report and in note 15 of the consolidated financial statements. Even though we have not been able to meet with our staff during the pandemic we engage with our employees on a personal basis by completing a performance evaluation with them twice a year. This helps with decisions on promotion, career advancement, training, fixed and variable compensation. It also ensures that there is an opportunity for us to hear back from our employees as to how we are doing for them as a Company, helping us to improve our employment practices and so the well-being and performance of our team.

Business Relationships
The Company recognises the importance of mutually beneficial, long-term business relationships to our business. During the pandemic this has been more important than ever in order to keep our business operating such that 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. Given the remote working the Company has taken to regularly using internet platforms for our meetings. A successful example of this has been our fund raising completed in July 2020 where all meetings with potential investors and our current institutional investors were conducted via the internet. More details of the fund raise can be found in the Financial Review on pages 16 to 18.

Other relationships including with our engineering partners, our customers and our business development activities have led, for example, to the completion of the successful demonstration project in Japan, whilst also continuing to complete the engineering of the pre-FEED work for our reference projects. Whilst we have also been able to create new relationships with customers in the US, 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 leveraging off the momentum that the green industrial revolution that has been supported by governments throughout the world but in particular within the UK and the US. This pipeline then develops into a small number of actual projects from which we then earn sales and technical support revenues.

Community and the Environment
Our "raison d'être" is to provide a solution to parts of the transport sector that are hard to decarbonise, especially the airlines. We 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. Velocys is committed to acting and developing sustainably and as part of that commitment we have appointed our first Sustainability Officer and developed our dedicated ESG policy. Much of how we approach the Company's sustainability is driven by the UN's Sustainable Development Goals. Further details can be seen in the Environmental, social and governance report on pages 19 to 21.

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

Our Engagement with Shareholders
We treat all shareholders in the Company with equal respect and are grateful to them for supporting the Board during such a challenging year as 2020, enabling the Company to remain focused on delivering its renewable fuels technology and pursuing exciting opportunities in this developing market. Given that we raise funds from the public market on a regular basis the 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. We have developed regular communications to our shareholders through the media including our website, Twitter and LinkedIn.

A principal decision was made by the Board to proceed with the fund raise in July 2020 which included a firm placing and an open offer to the wider public and the smaller shareholder community to ensure the Company has acted fairly and considered the interests of all our shareholders.

Directors' interests
The directors who held office at 31 December 2020 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 2020	31 December 2019
Sandy Shaw(1)	548,055	449,201
Philip Holland	1,203,118	972,894
Darran Messem	433,333	333,333
Andrew Morris	847,817	433,333
Henrik Wareborn	2,118,445	1,666,666

(1) The number of shares outstanding at 31 December 2019 has been restated from 451,091 to 449,201 due to the sale of 1,890 shares on 2 December 2019.

Directors' report (continued)

The following Board members purchased shares as part of the July 2020 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 (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 24 of the consolidated financial statements.

Financial risk management
Financial risks, and exposure and risk management policies and objectives are detailed in the Strategic Report on pages 23 to 26, and in note 24 of the consolidated financial statements.

Substantial shareholdings
The Company has been notified of, or is otherwise aware of, the following holdings of 3% or more of the issued share capital of Velocys plc as at 30 April 2021.

	Number of shares held	Percentage of issued share capital
Landsdowne Partners	186,638,262	17.5%
Ervington Investments Limited	137,855,776	12.9%
Hargreaves Lansdown Asset Management	125,035,431	11.7%
Ruffer LLP	85,139,117	8.0%
Interactive Investor Trading	51,142,954	4.8%
Amati AIM VCT plc	45,791,476	4.3%
DWP Bank	32,806,971	3.1%

Going concern and future funding
Based on the Company's latest forecast and cash flow projections approved by the Board, additional funding will be required within twelve months of the date of signing these financial statements. Consequently, these conditions indicate the existence of a material uncertainty that may cast doubt on the Company and Velocys plc's ability to continue as a going concern.

For additional information on the going concern of the Company and the future funding please see the Financial Review on pages 16 to 18.

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

Annual General Meeting
Details of arrangements for the 2021 Annual General Meeting are set out in the Company's notice of 2021 AGM which is being published at the same time as this Annual Report and Accounts 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 28 to 32.

Approved by the Board and signed on its behalf by:

Henrik Wareborn
Chief Executive Officer
14 May 2021

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 and the parent company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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 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 international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The directors are 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's and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

Directors' confirmations

In the case of each director in office at the date the Directors' report is approved:

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

On behalf of the Board

Henrik Wareborn
Chief Executive Officer
14 May 2021

Financial Statements

Independent auditors’ report to the members of Velocys plc

Report on the audit of the financial statements

Opinion

In our opinion, the Company’s consolidated financial statements and Velocys plc’s financial statements (the “financial statements”):

- give a true and fair view of the state of the Company’s and Velocys plc’s affairs as at 31 December 2020 and of the Company’s consolidated loss and the Company’s and Velocys plc’s cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and Velocys plc statements of financial position as at 31 December 2020; 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 statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Material uncertainty related to going concern – Company and Velocys plc

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Company’s and Velocys plc’s ability to continue as a going concern. Due to the nature of the Company’s and Velocys plc’s activities, and based on the forecasts prepared by management, the Company and Velocys plc need to secure additional external funding within 12 months from the date of approval of the financial statements in order to continue as a going concern. At the time of the approval of the financial statements no such funding is committed. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company’s and Velocys plc’s ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company and Velocys plc were unable to continue as a going concern.

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

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

- We assessed the Company’s and Velocys plc’s cash flow forecast for the 12 month period to 31 May 2022 and agreed these to be based on Board approved budgets.
- We tested the mathematical accuracy of the cash flow forecast and we did not identify any material exceptions in these tests.
- We compared the planned cash outflow to historical actual results and considered management’s assumptions to be supportable.
- We examined the mitigating actions identified by management to extend the Company’s and Velocys plc’s cash position, should additional funding not be achieved in line with forecast. We considered management’s assumptions to be reasonable.
- We held discussions with management including applying a severe but plausible downside scenario. We obtained an update on the current status of the sources of funding options being sought, as set out in note 2 to the financial statements, and we considered whether there were additional risks that needed to be reflected in the forecasts. We considered management’s assumptions to be reasonable, however, at the time of the approval of the financial statements, we determined that there are no agreements for additional funding in place. Furthermore we have considered management’s track record in raising equity finance and investment from third parties in assessing whether this may be achievable.
- Additionally we considered the adequacy of the disclosure in note 2 to the financial statements and found it to be sufficient to inform members about the directors’ conclusions on the appropriateness of using the going concern basis being adopted.

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

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

Our audit approach

Overview

Audit scope

- Overall Company materiality: £497,000 (2019: £500,000), based on 5.1% of loss before tax, before exceptional items.
- Overall Velocys plc materiality: £126,000 (2019: £107,600), based on 0.5% of total assets.
- We identified two financially significant components which were subject to full scope audits.
- We performed a full scope audit over the significant components Velocys plc and Velocys Inc. as well as Velocys Technologies Limited for statutory reporting purposes.
- We performed specified audit procedures at two further components to address specific risk characteristics or to provide sufficient overall coverage of particular financial statement line items.
- All audit work was performed by the group engagement team.
- Components where we performed audit procedures accounted for 94% of Company loss before tax and 99% of Velocys plc total assets.

Key audit matters

- Material uncertainty related to going concern
- Valuation of assets for the Company and investment in subsidiaries for Velocys plc (Company and Velocys plc)
- COVID-19 (Company and Velocys plc)

Materiality

- Overall Company materiality: £497,000 (2019: £500,000) based on 5.1% (2019: 5%) of loss before tax, before exceptional items.
- Overall Velocys plc materiality: £126,000 (2019: £107,600) based on 0.5% (2019: 1%) of total assets.
- Performance materiality: £323,000 (Company) and £81,900 (Velocys plc).

The scope of our audit

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

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

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

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

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

Key audit matters

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

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

The key audit matters below are consistent with last year.

Key audit matter	**How our audit addressed the key audit matter**
Valuation of assets for Company and investment in subsidiaries for Velocys plc (Company and Velocys plc)	
The carrying value of the Company's intangible assets is £0.7m (2019: £0.4m) and net assets are £13.1m (2019: £2.3m). The carrying value of Velocys plc's investments in subsidiaries is £9m and remains in line with the previous year following an impairment loss of £3.3m recorded in the prior year. The Company's intangible assets and Velocys plc's investments in subsidiaries are subject to impairment testing at least annually or more frequently if events or changes in circumstances indicate the carrying value may not be recoverable. In assessing whether there was any indication of impairment, management considered any changes in operations and compared the carrying amount of the Company's and Velocys plc's net assets to Velocys plc's market capitalisation. For the assessment of the recoverable amount of the Company's and Velocys plc's assets, the recoverable amount was determined for the cash generating unit ('CGU') to which these assets belong. The Company and Velocys plc have one CGU. The recoverable amount of the CGU was determined based on its fair value less costs of disposal ('fair value'), using Velocys plc's market capitalisation. IAS 36 also requires that the Company assess at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. The market capitalisation significantly increased from 31 December 2019 to 31 December 2020 indicating no impairment and that a potential reversal of impairment may be appropriate. However, management considered the trading performance in 2020, with no significant new revenue contracts, did not indicate the impairment loss should be reversed. Furthermore, the market capitalisation remains volatile both during the year and after the year end driven mainly by the fluctuation in share price. During the year the share price reported a low of 1.68p as at 18 March 2020 and a high of 14.65p on 18 June 2020 and at year end the share price was 10.15p. Post year-end the share price decreased to a low of 5.6p on 5 May 2021. Whilst, the market capitalisation has fluctuated, it has remained above the net assets of the Company and Velocys plc. Our audit focused on the risk that the carrying value of the Company's assets and Velocys plc's investments in subsidiaries could be overstated and further impairments could be necessary as well as considering if there were any indicators that the previous impairment may be reversed. Refer also to note 17 to the Company (consolidated) financial statements and note 9 to the financial statements of Velocys plc.	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 impairment indicators and their approach to calculating the CGU's recoverable amount, based on its fair value, using Velocys plc's market capitalisation. Management's assessment considered the market capitalisation at 31 December 2020 and post year end up to the date of this report. We concluded that the application of this market approach was appropriate. We independently verified the calculation of the market capitalisation as well as the fluctuations in share price. We compared the carrying value of assets with their recoverable amount. We did not identify any material exceptions in these tests and concur with management that there are no indicators of impairment. We then assessed whether a reversal of impairment was required and concluded that although the market capitalisation has increased, given that there are no significant operational or trading advances (such as a large new revenue contract or a technology proof milestone), it is appropriate to not record a reversal of previous impairment. We also assessed the Company's and Velocys plc's disclosures regarding the significant accounting judgements. We consider that these disclosures appropriately draw attention to the significant areas of judgement that support management's conclusion.

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

Key audit matter	How our audit addressed the key audit matter
COVID-19 (Company and Velocys plc)	
The impact of COVID-19 on the Company 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 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, progress continues to be made in all aspects of the business. Despite the wider economic challenges Velocys plc raised gross cash proceeds from equity of just under £21 million in June 2020. Our audit focussed on the extent of the impact both to the Company's near-term liquidity, its basis of preparation as a going concern and the associated disclosures. Refer also to note 17 to the Company (consolidated) financial statements and note 9 to the financial statements of Velocys plc.	We evaluated the process used by management to assess going concern 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 performed sensitivities over the Company's cash flow forecasts taking account of reasonably possible adverse effects that could arise such as no new revenues and not securing new project funding. We concur with management that there is a material uncertainty in relation to going concern as additional funding needs to be raised within 12 months of signing the financial statements. 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 Company's or Velocys plc's ability to continue as a going concern and a material uncertainty does exist for the reasons outlined in note 2.

How we tailored the audit scope

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

Overall Company materiality: £497,000 (2019: £500,000), equivalent to 5.1% (2019: 5%) of loss before tax, before exceptional items.
Overall Velocys plc materiality: £126,000 (2019: £107,600), based on 0.5% (2019: 1%) of total assets.

Materiality

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

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

	Financial statements - Company	Financial statements - Velocys plc
Overall materiality	**£497,000 (2019: £500,000).**	**£126,000 (2019: £107,600).**
How we determined it	5.1% of loss before tax, before exceptional items.	0.5% 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 Company. 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 Company.	We believe that total assets is the primary measure used by the shareholders in assessing the performance and position of the entity and reflects Velocys plc's principal activity as a holding company.

For each component in the scope of our Company audit, we allocated a materiality that is less than our overall Company materiality. The range of materiality allocated across components was between £126,000 and £472,150. Certain components were audited to a local statutory audit materiality that was also less than our overall Company materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 65% of overall materiality, amounting to £323,000 for the Company financial statements and £81,900 for the Velocys plc financial statements.

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

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £24,850 (Company audit) (2019: £25,950) and £7,000 (Velocys plc audit) (2019: £5,380) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, 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 Company's and Velocys plc's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or Velocys plc or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

Use of this report
This report, including the opinions, has been prepared for and only for 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 obtained 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
14 May 2021

Consolidated income statement

for the year ended 31 December 2020

	Note	**2020 £'000** Before exceptional items	**2020 £'000** Exceptional items (note 4)	**2020 £'000** Total	2019 £'000 Before exceptional items	2019 £'000 Exceptional items (note 4)	2019 £'000 Total
Revenue	6	178	–	178	332	–	332
Cost of sales		(101)	–	(101)	(132)	–	(132)
Gross profit		77	–	77	200	–	200
Administrative expenses	10	(9,238)	–	(9,238)	(9,898)	94	(9,804)
Other income	9	400	–	400	79	–	79
Operating loss		(8,761)	–	(8,761)	(9,619)	94	(9,525)
Loss before net finance costs		(8,761)	–	(8,761)	(9,619)	94	(9,525)
Finance income	7	6	–	6	48	–	48
Finance costs	8	(850)	–	(850)	(429)	–	(429)
Net finance costs		(844)	–	(844)	(381)	–	(381)
Loss before income tax		(9,605)	–	(9,605)	(10,000)	94	(9,906)
Income tax credit	13	810	–	810	291	–	291
Loss for the financial year attributable to the owners of Velocys plc		(8,795)	–	(8,795)	(9,709)	94	(9,615)
Loss per share attributable to the owners of Velocys plc							
Basic and diluted loss per share (pence)	16	(1.05)	–	(1.05)	(1.91)	0.1	(1.90)

The notes on pages 58 to 84 are part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2020

	2020 £'000	**2020 £'000**	**2020 £'000**	2019 £'000	2019 £'000	2019 £'000
	Before exceptional items	Exceptional items (note 4)	Total	Before exceptional items	Exceptional items (note 4)	Total
Loss for the year	(8,795)	–	(8,795)	(9,709)	94	(9,615)
Other comprehensive expense items that may be reclassified to the income statement in subsequent periods						
Foreign currency translation differences	(251)	–	(251)	(262)	–	(262)
Total comprehensive expense for the year attributable to the owners of Velocys plc	(9,046)	–	(9,046)	(9,971)	94	(9,877)

The notes on pages 58 to 84 are part of these consolidated financial statements.

Consolidated statement of financial position

as at 31 December 2020

	Note	**2020 £'000**	2019 £'000
Assets			
Non-current assets			
Intangible assets	17	740	444
Property, plant and equipment	18	1,479	1,734
Right-of-use asset	19	653	836
		2,872	3,014
Current assets			
Inventories	21	970	3,332
Trade and other receivables	20	6,182	1,637
Current income tax asset		810	648
Cash and cash equivalents	22	13,051	4,797
		21,013	10,414
Total assets		23,885	13,428
Liabilities			
Current liabilities			
Trade and other payables	23	(932)	(1,331)
Lease liability	19	(470)	(581)
Borrowings	27	(152)	–
Other liabilities	28	(474)	(2,804)
Deferred revenue	29	(7,774)	(5,562)
		(9,802)	(10,278)
Non-current liabilities			
Lease lability	19	(270)	(343)
Borrowings	27	(371)	–
Deferred revenue	29	(382)	(470)
		(1,023)	(813)
Total liabilities		(10,825)	(11,091)
Net assets		13,060	2,337
Capital and reserves attributable to owners of Velocys plc			
Called up share capital	25	10,642	6,438
Share premium account	25	199,701	184,256
Merger reserve		369	369
Share-based payments reserve		16,345	16,225
Foreign exchange reserve		3,038	3,289
Accumulated losses		(217,035)	(208,240)
Total equity		13,060	2,337

The notes on pages 58 to 84 are part of these consolidated financial statements.

The financial statements on pages 53 to 84 were approved by the Board of directors and authorised for issue on 14 May 2021. 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 2020

	Note	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Share-based payment reserve £'000	Foreign exchange reserve £'000	Accumu-lated losses £'000	Total equity £'000
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	25	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
Balance at 1 January 2020		6,438	184,256	369	16,225	3,289	(208,240)	2,337
Loss for the year		–	–	–	–	–	(8,795)	(8,795)
Other comprehensive expense								
Foreign currency translation differences		–	–	–	–	(251)	–	(251)
Total comprehensive expense		–	–	–	–	(251)	(8,795)	(9,046)
Transactions with owners								
Share-based payments – value of employee services	15	–	–	–	120	–	–	120
Proceeds from share issues	25	4,200	15,437	–	–	–	–	19,637
Proceeds from options exercised		4	8	–	–	–	–	12
Total transactions with owners		4,204	15,445	–	120	–	–	19,769
Balance at 31 December 2020		10,642	199,701	369	16,345	3,038	(217,035)	13,060

The notes on pages 58 to 84 are part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2020

	Note	**2020 £'000**	2019 £'000
Cash flows from operating activities			
Operating loss		(8,761)	(9,525)
Depreciation and amortisation		1,099	1,094
Loss on disposal of intangible assets	17	72	187
Impairment of property, plant and equipment	4	–	439
Impairment of inventory	21	270	569
Share-based payments		120	82
Changes in working capital (excluding the effects of exchange differences on consolidation)			
Trade and other receivables		(4,545)	(165)
Trade and other payables		(399)	(1,687)
Other liabilities		(2,330)	712
Deferred revenue	29	2,124	819
Inventory		2,092	(2,473)
Cash consumed by operations		(10,258)	(9,948)
Tax credits received		648	736
Net cash used in operating activities		(9,610)	(9,212)
Cash flows from investing activities			
Purchase of property, plant and equipment		(342)	(779)
Purchase of intangible assets		(513)	(394)
Payment from associate ENVIA		–	3,432
Interest received		6	33
Net cash (used in)/generated from investing activities		(849)	2,292
Cash flows from financing activities			
Proceeds from issues of shares and exercise of options	25	21,000	7,000
Costs of issuing shares		(1,363)	(427)
Proceeds from issue of share options		12	–
Principal elements of lease payments	19	(457)	(479)
Interest paid	8	(142)	(201)
Proceeds from borrowings		567	–
Repayment of borrowings		–	(371)
Net cash generated from financing activities		19,617	5,522
Net increase/(decrease) in cash and cash equivalents		9,158	(1,398)
Cash and cash equivalents at beginning of year	22	4,797	6,964
Exchange movements on cash and cash equivalents		(904)	(769)
Cash and cash equivalents at end of year	22	13,051	4,797

The notes on pages 58 to 84 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 12 to 26. The parent company financial statements are included on pages 85 to 94. 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 accounting standards in conformity with the Companies Act 2006 ("IFRS").

The financial statements have been prepared under the historical cost convention. For the years ended 31 December 2020 and 2019, there were no applicable financial assets and liabilities requiring revaluation at fair value.

The preparation of financial statements to conform to IFRS as adopted by the UK 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 nature of the Company's strategy means that the precise timing of milestones and funds generated during the early years of development projects are difficult to predict. The directors have prepared financial forecasts to estimate the likely cash requirements of the Company and Velocys plc over the next twelve months from the date of approval of the financial statements. The cash forecast includes the following assumptions:

(i) the completion of the current stage of the Front End Engineering Design ("FEED") for the Altalto Immingham Project and the Mississippi Biorefinery Project prior to securing funding for the next stage of FEED to financial close;
(ii) the completion of the new design of the upgraded manufacturing facility;
(iii) the continued process of on-boarding one or more strategic investors to provide the final stages of development funding for either or both the Altalto Immingham Project and the Mississippi Biorefinery Project;
(iv) revenue from the ongoing pre-FEED engineering work from the February 2021 announcement of the collaboration agreement with our customer Toyo Engineering Corporation for the development of their first commercial plant in Japan; and
(v) the current overhead cost run rate.

The forecasts show that the Company and Velocys plc require additional external funding within the 12-month forecast period to be able to continue as a going concern.

This funding may be achieved from one or a combination of, a capital raising (including the possibility of a placement of ordinary shares within the next 12 months) or the realisation of certain assets; selling additional technology licences; performing Pre-FEED engineering work for customers (such as the technical services agreement made with Toyo Engineering Corporation recently for their commercial plant in Japan); UK or US government loans or grants; and selling non-core intellectual property.

The directors are confident that the funding required for the Company and Velocys plc to continue as a going concern will be secured within a period of 12 months from the date of approval of the financial statements and have therefore prepared the financial statements on a going concern basis. However, as at the date of approval of the financial statements no additional funding is committed. Should additional funding not be secured within 12 months from the date of approval of these financial statements, the Company and Velocys plc would not be a going concern. As such, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company and Velocys plc's ability to continue as a going concern.

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

Changes in accounting policies

New standards, interpretations and amendments adopted from 1 January 2020

The Company has assessed the new standards, interpretations and amendments issued that are effective from 1 January 2020 and does not consider these to be relevant to the financial statements or to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the International Accounting Standards Board ("IASB") that are effective in future accounting periods that the Company has decided not to adopt early.

The following amendments are effective for the accounting period beginning 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS1, IFRS9, IFRS16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

The Company is currently assessing the impact of these new accounting standards and amendments. The Company does not believe that these amendments will have a material impact.

Financial risk management policies

Financial risk management policies are set out in the Strategic report on pages 23 to 26, and in note 24.

Capital management policies

Capital management policies are set out in note 24.

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 pounds sterling (£). It should be noted that the functional currency for Velocys plc is pounds sterling as Velocys plc is traded on the AIM market and is head quartered in the UK. Currently all new equity based fund raises are completed in the UK and made in £.

Transactions and balances

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

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

Entities within Velocys

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

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 included in the note to which they apply.

Notes to the consolidated financial statements (continued)

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

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.

	2020 £'000	2019 £'000
Administrative expenses:		
Property, plant and equipment impairment	–	(439)
Recovery of loan to an associate	–	533
Total	–	94

Administrative expenses

Property, plant and equipment impairment – in 2019, the Company made an impairment of £439,000 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 determined that the land required an impairment.

Recovery of loan to an associate – in 2019, the Company released deferred revenue in the amount of £533,000 in final settlement of a loan receivable from ENVIA Energy, LLC ("ENVIA") representing the recovery on an impairment first recorded in 2018.

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, the offtakers who purchase the fuel and financing entities. The Executive management team reviews the Company's profit or loss and its cash flows, assets and liabilities on a 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 not allocate assets and liabilities or shared overheads to individual products or projects.

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

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

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

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

	2020 £'000	2019 £'000
Asia Pacific	157	266
Americas	21	66
Total revenue	178	332

Revenues during the year originated predominantly from Japan relating to the sale of equipment and engineering services in the Asia Pacific region.

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

	2020 £'000	2019 £'000
Customer 1	157	266
Customer 2	21	44
Customers less than 10%	–	22
Total revenue	178	332

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

	2020 £'000	2019 £'000
Intangible assets	213	347
Property, plant and equipment	1,260	1,627
Right-of-use asset	422	751
Total	1,895	2,725

All other non-current assets were held in the United Kingdom and amounted to £977,000 (2019: £289,000).

6. Revenue

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

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

If the entity is providing a single performance obligation in the form of an integrated set of activities, each contract is assessed to determine if it meets the criteria for recognition over time. This would require the contract to either transfer control of the combined output over time or for the entity to have an enforceable right of payment for the performance completed to date for activities that do not create an asset with alternative use. One contract that was signed in 2018 with reactor and catalyst deliveries completed in 2020 is subject to a performance test run in 2021 or performance obligations which expire under the terms of the contract in 2021 if the test is not completed. This has been assessed as a combined performance obligation and it was determined that the above criteria have not 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 described above 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.

	2020 £'000	2019 £'000
FT reactor, catalyst and licence	63	273
Engineering services	115	59
Total	178	332

FT reactor, catalyst and licence revenue in the amount of £63,000 for the year ended 31 December 2020 consisted principally of the sale of catalyst to a customer in Japan, and in the previous year consisted principally of the sale of substacks to the same customer. This revenue was recognised at a specific point in time upon delivery and title transfer of the catalyst (and in 2019, substacks) for the customer's demonstration plant. Revenue from engineering services was recognised on a time and materials basis during the period in which the services were delivered.

7. Finance income

	2020 £'000	2019 £'000
Interest income on bank deposits	6	48
Total	6	48

8. Finance costs

	2020 £'000	2019 £'000
Interest on lease liabilities	142	196
Interest on borrowings	–	4
Foreign exchange losses	708	229
Total	850	429

Interest on borrowings in 2019 is the interest associated with other loans repaid during 2019.

9. Other income

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

Income from government grants is recognised only when there is reasonable assurance that (a) the Company has complied with any conditions attached to the grant and (b) the grant will be received. Further details relating to the £290,000 included below can be found in note 20.

	2020 £'000	2019 £'000
Income from government grants	290	–
Release of aged deposit received	80	–
Profit on sale of fixed assets	30	79
Total	400	79

10. Administrative expenses

	2020 £'000	2019 £'000
Employee benefit expense (note 12)	4,530	3,332
Sub-contractor and consultant costs	1,563	2,967
Depreciation of property, plant and equipment (note 18)	500	568
Amortisation of intangible assets (note 17)	137	112
Depreciation of right-of-use asset (note 19)	462	414
Patent and other IP costs	104	89
Other direct and administrative costs	1,043	937
Professional services	404	560
Legal	358	450
Travel	137	469
Total administrative expenses before exceptional items	9,238	9,898
Exceptional items (note 4)	–	(94)
Total administrative expenses	9,238	9,804

Included in administrative expenses were research and development costs of £1,603,000 (2019: £1,174,000).

11. Auditors' remuneration

	2020 £'000	2019 £'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	192	158
For the audit of the parent company and consolidated financial statements in respect of the prior year	30	54
For the audit of the financial statements of subsidiaries of the parent company in respect of the current year	35	35
For the audit of the financial statements of subsidiaries of the parent company in respect of the prior year	5	12
Other services:		
International payroll taxation services	12	–
Total	274	259

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

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

	2020 number	2019 number
Research, design and development	17	15
Administration	16	18
Total average headcount	33	33

Notes to the consolidated financial statements (continued)

12. Employee benefit expense (continued)

Their aggregate remuneration comprised the following items.

	2020 £'000	2019 £'000
Wages and salaries	4,813	3,817
Short-term non-monetary benefits	560	543
Social security contributions and similar taxes	393	286
Defined contribution pension costs	228	188
Severance expense	43	138
Share-based payments granted to directors and employees (note 15)	120	82
Total remuneration before capitalisation of wages and salaries	6,157	5,054
Capitalisation of wages and salaries	(1,627)	(1,722)
Total remuneration	4,530	3,332

Wages and salaries include discretionary bonus payments made to Executive Directors and employees totalling £983,000 during the year ended 31 December 2020 in respect of 2019 performance. In 2019, £545,000 was credited to Wages and salaries in respect of bonuses, as the total amount paid out to Executive Directors and employees was lower than the amount accrued at 31 December 2018. The Company has not recorded a bonus accrual as at 31 December 2020 in respect of 2020 performance, as explained in the Strategic report on page 36.

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

The capitalisation of wages and salaries relates to employees who manufacture the reactors associated with one of the Company's sales contracts, where the costs are deferred until revenue and cost recognition is allowed in accordance with the performance obligations of the contract. In addition, capitalisation of wages and salaries includes those costs related to the Altalto project which are offset against Other liabilities (see note 28).

Severance in the amount of £43,000 was paid to one employee who was made redundant in the year. No redundancies were made during 2019, however severance in the amount of £138,000 in 2019 was paid to a former director, who resigned in December 2018.

Details of directors' remuneration are given in the audited information in the Directors' remuneration report on pages 36 to 40, which forms part of these financial statements.

13. Income tax credit

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

	2020 £'000	2019 £'000
Current tax:		
R&D tax credit relating to prior years	–	247
R&D tax credit relating to current year	(810)	(538)
Current tax total	(810)	(291)
Income tax total	(810)	(291)

Due to the availability of losses incurred in the year, there is no charge to corporation tax. The Company recognised £810,000 for R&D tax credits (2019: £291,000). The credit relating to the current year is on an accruals basis, which is an estimate of the amount to be claimed from HMRC based on the assessment of the Company's projects, to determine which ones qualify under HMRC's rules, and to estimate the level of allowable cost within each, based on the nature of costs.

The actual tax credit for the current and previous year is lower (2019: 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.

	2020 £'000	2019 £'000
Loss before income tax after exceptional items	(9,605)	(9,906)
Tax calculated at domestic tax rates applicable to losses in the respective countries	(1,825)	(1,882)
Tax effects of:		
Expenses not deductible for tax purposes	5	72
Remeasurement of deferred tax for changes in tax rates	(1,254)	–
Unutilised tax losses for which no deferred tax asset is recognised	3,074	1,810
R&D tax credit	(810)	(291)
Income tax total	(810)	(291)

The weighted average applicable tax rate was 20% (2019: 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 so the unrecognised UK deferred tax balances have been measured at 19% (recognised: £nil). In the Spring Budget 2021, the UK Government announced that the headline UK corporation tax rate would increase from 19% to 25% from 1 April 2023 on profits in excess of £250,000. A small profits rate of 19% will apply to profits of £50,000 or less and for companies with profits in between these amounts there will be a gradual increase in the effective corporation tax rate. As this new law had not been substantively enacted at the balance sheet date current tax is calculated at 19%.

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.

	2020 £'000	2019 £'000
Unrecognised		
Deferred tax assets		
Trading losses	(28,660)	(27,116)
Share based payments	(321)	–
Total	(28,981)	(27,116)

At 31 December 2020, the Company had a net unrecognised deferred tax asset of £28,660,000 (2019: £27,116,000) arising from trading losses since incorporation. No recognition (2019: £nil) of the net deferred tax asset has been made at 31 December 2020 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 £12,889,000 (2019: £10,663,000) is anticipated to remain available indefinitely to offset against future taxable trading profits of the entities in which the losses arose. The remainder has expiry dates between 2023 and 2039 (2019: 2025 and 2039).

The unrecognised deferred tax asset of £321,000 (2019: £nil) in respect of share based payments is calculated by reference to the intrinsic value of outstanding share options as at 31 December.

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.

Notes to the consolidated financial statements (continued)

15. Share-based payments (continued)
At the end of each reporting period, for awards not containing a market condition the Company revises its estimates of the number of options that are expected to vest, based on historical satisfaction of non-market vesting and service conditions. It recognises the impact of the revision to original estimates in the Income statement, recorded in Administrative expenses, with a corresponding adjustment to equity.

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

The number of options outstanding at 31 December 2020 and the expense recognised in the Consolidated income statement for these schemes, along with bonus shares and other schemes, was as follows.

	2020		2019	
Scheme	Options outstanding	Income statement £'000	Options outstanding	Income statement £'000
Employees UK/US	16,691,961	59	17,993,269	55
LTIP (Executives and Senior Management team)	34,842,671	61	38,568,280	27
Velocys, Inc.	45,543	–	58,566	–
Bonus shares	–	–	37,655	–
Other	212,625	–	212,625	–
Total	51,792,800	120	56,870,395	82

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 was as follows.

	2020		2019	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	12.31p	17,993,269	129.45p	1,767,100
Granted	–	–	3.00p	16,700,000
Forfeited	11.79p	(901,308)	106.42p	(473,831)
Exercised	3.00p	(400,000)	–	–
At 31 December	12.05p	16,691,961	12.31p	17,993,269

Of the 16,691,961 options outstanding at 31 December 2020, 11,568,624 were exercisable (2019: 1,389,934). The weighted average exercise price of the exercisable shares was 16.03p (2019: 41.85p).

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

		2020		2019	
Year of expiry	Range of exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
2020	57.78 – 68.32p	–	–	21,308	57.78p
2021	50.91 – 72.25p	421,961	50.91p	491,961	53.74p
2022	65.54 – 69.89p	10,000	65.54p	10,000	67.55p
2023	185.98 – 206.53p	460,000	185.98p	460,000	191.71p
2024	202.61 – 293.23p	130,000	220.01p	140,000	230.81p
2025	60.47 – 174.66p	100,000	163.77p	100,000	168.81p
2026	28.74 – 39.26p	70,000	28.74p	70,000	29.65p
2027	–	–	–	–	–
2028	–	–	–	–	–
2029	3.00p	15,500,000	3.00p	16,700,000	3.00p
Total	3.00 – 293.23p	16,691,961	12.05p	17,993,269	12.31p

In respect of the 16,700,000 options granted in 2019, the significant inputs into the Black-Scholes model were as follows:

	2019
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

The total expense recognised in the Consolidated income statement for share options granted to the Executive Directors and employees was £59,000 (2019: £55,000).

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.

No awards were made during the year ended 31 December 2020, however awards have been made in February 2021 in respect of 2020 annual awards entitlement, as disclosed in note 32.

The time based share options awarded in December 2019 vest and become exercisable on the third anniversary of the grant date of 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 4.5 pence. The options expire after ten years. The exercise price was set at the time of grant at 4.5 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 being 13 December 2019. The balance of the Options vested on 4 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

Notes to the consolidated financial statements (continued)

15. Share-based payments (continued)
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.

Executive options granted up to and including 2014, are exercisable at a price of 1 pence 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.

	2020		2019	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	14.55p	38,568,280	97.02p	4,922,741
Granted	–	–	5.69p	35,125,146
Forfeited	60.51p	(3,725,609)	78.48p	(1,479,607)
At 31 December	7.82p	34,842,671	14.55p	38,568,280

Of the 34,842,671 options outstanding at 31 December 2020, 4,933,069 were exercisable (2019: 3,238,134). The weighted average exercise price of the exercisable shares was 27.31p (2019: 37.49p).

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.

		2020		2019	
Year of expiry	Range of exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
2021	1.00 – 58.00p	81,250	58.00p	471,876	10.82p
2022	49.00p	212,700	49.00p	851,503	28.00p
2023	159.00p	283,191	159.0p	911,853	97.85p
2024	153.00 – 163.50p	214,543	161.0p	763,937	112.94p
2025	Nil	141,385	Nil	238,965	Nil
2026	1.00p	–	–	105,000	1.00p
2027	1.00p	–	–	100,000	1.00p
2029	3.00-15.00p	33,909,602	5.24p	35,125,146	5.69p
Total	Nil – 163.50p	34,842,671	7.82p	38,568,280	14.55p

In 2019, the Company awarded 35,121,146 equity awards with a weighted average fair value of 3 pence per option. The significant inputs into the model were as follows.

	2019
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

The total expense recognised in the Consolidated income statement for LTIP options granted to the Executive Directors and employees was £61,000 in 2020 (2019: £27,000).

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 Catalysts Group PLC, option (the ratio of the value of one share of Velocys, Inc. stock to one share of Velocys plc, formerly Oxford Catalysts 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.

	2020		2019	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	$0.93	58,566	$0.93	63,570
Forfeited	$0.93	(13,023)	$0.93	(5,004)
At 31 December	$0.93	45,543	$0.93	58,566

Of the options outstanding presented above, 45,543 (2019: 58,566) were exercisable as of 31 December 2020. The weighted average share price of the exercisable shares was $0.93 (2019: $0.93).

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

		2020		2019	
Year of expiry	Exercise price per share	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
2021	$0.93	45,543	$0.93	58,566	$0.93
Total	$0.93	45,543	$0.93	58,566	$0.93

The total expense recognised in the Consolidated income statement for share options granted under the Velocys, Inc. plan was £nil (2019: £nil).

Bonus shares

The Company previously maintained a bonus share scheme for certain executives where 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 have been made under the scheme during, or in respect of, 2020 and 2019 and the Company does not expect to use the scheme going forward. All expense has been recognised prior to 2019.

The Velocys Technologies Limited bonus share scheme awarded nominal value share options (1 pence) 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.

	2020		2019	
	Exercise price	Number of options	Exercise price	Number of options
At 1 January	1.00p	37,655	1.00p	79,760
Forfeited	1.00p	(37,655)	1.00p	(42,105)
At 31 December	1.00p	–	1.00p	37,655

Notes to the consolidated financial statements (continued)

15. Share-based payments (continued)

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

		2020	2019
Year of expiry	Exercise price	Number of options	Number of options
2021	1.00p	–	37,655
Total	1.00p	–	37,655

Other share options

The Board has historically approved the granting of share options to a small number of consultants (non-employees) who provided a strategic service to the Company. No options have been granted to consultants since 2015.

Options 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.

	2020		2019	
	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 2020, 212,625 were exercisable (2019: 212,625). The weighted average exercise price of the exercisable shares was 104.15p (2019: 104.15p).

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

		2020		2019	
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 2020 and 2019.

The share-based payment expense for the year includes a cost of £nil (2019: £nil) relating to options granted to consultants.

Share-based payments charge

The total charge for share-based payments during the year was £120,000 (2019: £82,000) of which £28,000 (2019: £23,000) relates to options granted to directors and the remainder to other employees.

16. Basic and diluted loss per share

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

	2020	2019
Loss attributable to owners of Velocys plc (£'000s)	(8,795)	(9,615)
Weighted average number of ordinary shares in issue	836,710,315	507,218,656
Basic and diluted loss per share (pence)	(1.05)	(1.90)

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 2020 and 2019 there were no other potentially dilutive instruments (see note 25). Details of share options are given in note 15.

17. Intangible assets

Significant accounting policies

Cost or valuation and amortisation

Goodwill

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

In-process technology

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

Patents, licences and trademarks

Patents and trademarks are recorded at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over a period of 20 years, which is their estimated useful economic life. Residual values and useful lives are reviewed annually and adjusted if appropriate. The Company decided to abandon certain non-core patents in 2020 and 2019. This resulted in a loss on disposal of patents of £72,000 (2019: loss of £187,000).

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.

Amortisation

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

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

Amortisation charges of £137,000 for patents, licences and trademarks are included in administrative expenses (2019: £112,000). There were no amortisation charges recorded in respect of other classes of intangible assets during the year as the net book value was £nil (2019: £nil).

Impairment

Intangible assets are reviewed for impairment annually and whenever events or changes in circumstances indicate their carrying value may not be recoverable. To the extent carrying value exceeds recoverable amount, the difference is recognised as an expense in the income statement. The recoverable amount used for impairment testing is the higher of value in use and fair value less costs of disposal. For the purpose of impairment testing, assets are generally tested individually or at a Cash Generating Unit ("CGU") level which represents the lowest level for which there are separately identifiable cash inflows that are largely independent of cash inflows from other assets or groups of assets. The Company has one CGU on the basis that the key end use market is that of synthetic fuels production. At this stage, the synthetic fuels segment represents 100% of the business and therefore represents the only material segment. Based on management's judgement, all products and services offered within the operating segment have similar economic characteristics.

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

In 2017, the Company recorded an impairment of intangible assets totalling £28.8m, which comprised £7.4m of Goodwill, £20.6m of In-process technology and £0.8m of Patents, licence and trademarks. The majority of the intangible assets arose on the Company's acquisition of Velocys, Inc. in November 2008 and relates to the acquired microchannel process technology which forms an integral part of the Company's patented Fischer-Tropsch ("FT") reactors. Over the last few years, the FT reactors have been used successfully in demonstration plants in both the US and Japan, and have also been manufactured and supplied to a commercial customer for which the Company has received £7.8m of revenue including licence fees, reactor sales and catalyst sales (see note 29).

For the impairment assessment performed in 2017, the recoverable amount was determined by comparing the carrying amount of the Company's total net assets with the fair value of the business, by reference to the value of Velocys plc's market capitalisation. This

Notes to the consolidated financial statements (continued)

17. Intangible assets (continued)
approach has been followed in subsequent years including for the assessment performed at 31 December 2020, to test whether further impairments or a reversal of previous impairments is required.

The analysis performed at 31 December 2020 compared the carrying amount of £0.7m with the value of Velocys plc's equity based on the AIM-listed shares at 31 December 2020.

This assessment also considered the operating performance of the Company during 2020 which included delivery of reactors and catalyst to an existing commercial customer, progress being made on our reference projects and new external funding obtained. Whilst there was clear evidence of the Company's progress during 2020, Management also considered the wider economic environment and increased risks posed by the COVID-19 pandemic.

Critical estimates and judgements
In assessing whether there is any indication that an asset may be impaired or whether a reversal of prior year impairments is required, the Company considers, as a minimum, a number of indicators. In 2020, the Company considered:

- At 31 December 2020, whether the carrying amount of the Company's net assets was above or below Velocys plc's market capitalisation;
- Whether significant increases or decreases in the market price of the assets had occurred;
- Whether there were significant favourable or adverse changes in the extent or manner in which the assets are being used; and
- Whether there were significant favourable or adverse changes in the global market for sustainable aviation fuel and global economic factors more generally.

Based on the 2020 analysis, the Company concluded that no further impairment was required.

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

The Company also decided not to reverse prior year impairments as at 31 December 2020, despite the market capitalisation exceeding the carrying amount of the Company's net assets, as the Board concluded that the Company's current commercial position, without any significant new customer contracts or additional investors into the reference projects outweighed the other positive aspects considered.

2020	Goodwill £'000	In-process technology £'000	Patents, licence and trademarks £'000	Software £'000	Total £'000
Cost					
At 1 January 2020	7,398	23,681	1,598	96	32,773
Additions	–	–	513	–	513
Disposals	–	–	(103)	–	(103)
Foreign exchange movement	–	–	(37)	–	(37)
At 31 December 2020	7,398	23,681	1,971	96	33,146
Accumulated amortisation and impairment					
At 1 January 2020	7,398	23,681	1,154	96	32,329
Charge for the year	–	–	137	–	137
Disposals	–	–	(31)	–	(31)
Foreign exchange movement	–	–	(29)	–	(29)
At 31 December 2020	7,398	23,681	1,231	96	32,406
Net book amount					
At 31 December 2020	–	–	740	–	740

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

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 asset's carrying amount does not exceed that which would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

Notes to the consolidated financial statements (continued)

18. Property, plant and equipment (continued)

2020	Assets under construction £'000	Land £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2020	982	1,299	8,281	10,562
Additions	–	–	342	342
Transfers to plant and machinery	(982)	–	982	–
Foreign exchange	–	(78)	(298)	(376)
At 31 December 2020	–	1,221	9,307	10,528
Accumulated depreciation and impairment				
At 1 January 2020	–	1,142	7,686	8,828
Charge for the year	–	–	500	500
Impairment	–	–	–	–
Disposals	–	–	–	–
Foreign exchange	–	(68)	(211)	(279)
At 31 December 2020	–	1,074	7,975	9,049
Net book amount				
At 31 December 2020	–	147	1,332	1,479

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
Transfers to plant and machinery	(171)	–	171	–
Foreign exchange	–	14	111	125
At 31 December 2019	982	1,299	8,281	10,562

2019	Assets under construction £'000	Land £'000	Plant and machinery £'000	Total £'000
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

As at 31 December 2020, the Company had not entered into any contractual commitments for the material acquisition of property, plant and equipment (2019: none).

As at 31 December 2020, the gross carrying amount of fully depreciated property, plant and equipment still in use was £3,827,000.

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 £142,000 (2019: £196,000).

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 (2019: £2,000) 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 2020	168	1,096	1,264
Transfers to Buildings	(35)	35	–
Additions	85	211	296
Foreign exchange	(8)	(28)	(36)
At 31 December 2020	210	1,314	1,524
Accumulated depreciation			
At 1 January 2020	63	365	428
Charge for the year	63	399	462
Foreign exchange	(4)	(15)	(19)
At 31 December 2020	122	749	871
Net Book value			
At 31 December 2020	88	565	653

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 2020 of £296,000 (2019: £208,000) mainly related to the expansion of the Company's office space within the Oxford Science Park, UK.

Lease liability	**2020 £'000**	2019 £'000
Current	470	581
Non-Current	270	343
	740	924

20. Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables	110	37
Deferred costs	4,947	1,054
Prepaid costs	531	447
Grants receivable	290	–
Other receivables	304	99
Total	6,182	1,637

Trade receivables represent assets that are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest. Trade receivables, in general, are collected within 45 days of invoice date.

Deferred costs are in respect of the Red Rock Biofuels customer contract, for which the Company has deferred revenue as shown in note 29.

Trade receivables and deferred costs (contract assets) are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company, and a failure to make contractual payments for a period of greater than 90 days past due.

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

Grants receivable relate to the Stage Two grant funding for the Altalto waste-to-jet fuels project from the UK Department for Transport ("DfT"), under the Future Fuels for Flight and Freight Competition ("F4C"). The DfT has made £500,000 of the Stage Two grant available to the Company. As at 31 December 2020 the Company had completed the project milestones to qualify for the first tranche of £290,000 to be paid, which was received in January 2021.

As at 31 December 2020 other receivables consist of vendor deposits and sales taxes recoverable. As at 31 December 2019 other receivables mainly consisted of vendor deposits.

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.

21. Inventories

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

	2020 £'000	2019 £'000
Raw materials and consumables	336	1,782
Work in progress	45	1,550
Finished goods	589	–
Total	970	3,332

Raw material and consumables consist of material that will be consumed in the manufacturing of reactors and catalyst. Work in progress consists of labour associated with the manufacturing of reactors. In 2020, the Company recognised £23,000 (2019: £73,000) of inventory in Cost of sales in the Consolidated income statement. as The majority of the inventory delivered to customers during 2020 is recorded as a deferred cost within Trade and other receivables (see note 20).

As at 31 December 2020, the Company had a total inventory provision of £653,000 (2019: £383,000). The Company recorded £270,000 (2019: -£191,000) 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 two cores manufactured for use in its reactors which did not meet the Company's specifications, and impaired test reactors totalling £123,000. The Company also reversed an impairment of £352,000 made in 2017 for a reactor that was delivered to a customer during 2019. The cost of this reactor is included in deferred costs as at 31 December 2020 and 2019 as it relates to the Red Rock Biofuels customer contract.

Notes to the consolidated financial statements (continued)

22. 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.

	2020 £'000	2019 £'000
Cash and cash equivalents	13,051	4,797
Total	13,051	4,797

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

	2020 £'000	2019 £'000
Cash and cash equivalents		
UK sterling denominated	6,584	3,783
US dollar denominated	6,465	927
Euro denominated	2	87
Total	13,051	4,797

23. Trade and other payables

	2020 £'000	2019 £'000
Trade payables	360	333
Other taxation and social security	31	45
Accruals	541	953
Total	932	1,331

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 (2019: 60 days or less).

24. Financial instruments

Financial assets

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

The Company holds cash, trade and other 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.

Trade and other receivables (see note 20) are classified as both non-current assets and current assets. Other receivables primarily consist of deferred costs which are outside of the scope of IFRS 9. At 31 December 2020, there were £nil (2019: £nil) 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 include Trade payables, all of which are current liabilities (see note 23), 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.

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; and
- To be in a position to take advantage of opportunities that can deliver a return to shareholders.

The Company's revenue stream relies on the projects incorporating its technology, securing project finance. The Company's strategy is to take a pro-active role in this process and it 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 (see note 25), the Company maintains sufficient cash balances to meet anticipated requirements for the remainder of 2021. However, the Company is likely to require a further fundraise before operating cash flows generate sufficient funds to be self-sustaining.

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 the Altalto Immingham Project and the Mississippi Biorefinery Project, which are expected during the second half of 2021; and
- UK or US government loans or grants.

Exchange rates

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

The use of financial derivatives is governed by 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 2020, there were no financial derivatives (2019: £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.

	2020		2019	
	Income statement £'000	Equity £'000	Income statement £'000	Equity £'000
GBP:USD exchange rate +/- 10%	589	543	62	(100)

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

	2020	2019
	USD £'000	USD £'000
Cash and cash equivalents	6,465	–
Trade receivables	110	37
Trade payables	74	201
Debt	523	–

Notes to the consolidated financial statements (continued)

24. Financial instruments (continued)

Credit

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

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

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

Interest rates

Variations in interest rates affect only Velocys' cash holdings, as interest on its borrowing is payable at a fixed rate. The Company received a loan of $709,000 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. The Company met the criteria during 2020 and submitted its application for "forgiveness" in January 2021.

The Company had no borrowings, other than lease liabilities, at 31 December 2019.

As far as the cash flow forecast allows for certainty, excess 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 2020
	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	110	–	110
Cash and cash equivalents	13,051	–	13,051
Total	13,161	–	13,161

			31 December 2019
	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	37	–	37
Cash and cash equivalents	4,797	–	4,797
Total	4,834	–	4,834

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

	2020		2019	
Short-term bank deposits, cash at bank and in hand	£'000	%	£'000	%
Aa2	81	1	–	–
Aa3	6,299	48	1,498	31
A1	6,671	51	3,299	69
Total	13,051	100	4,797	100

Financial liabilities are as follows.

	31 December 2020	
	Financial liabilities at amortised cost £'000	Total £'000
Liabilities as per balance sheet		
Borrowings	523	523
Trade and other payables excluding non-financial liabilities	360	360
Accruals	541	541
Lease liabilities	740	740
Total	2,164	2,164

	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

The contractual maturity of financial liabilities is as follows.

	2020 £'000	2019 £'000
Within one year	1,524	1,912
Within two to five years	640	343
Total	2,164	2,255

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

25. Called up share capital and reserves

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

	Number of shares* (thousands)	Ordinary shares £'000	Share Premium £'000
At 1 January 2019	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
Proceeds from share issues	420,000	4,200	16,800
Expenses of share issues	–	–	(1,363)
Proceeds from exercise of options	400	4	8
At 31 December 2020	1,064,156	10,642	199,701

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

Ordinary shares

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

In July 2020, Velocys completed a gross fundraise of £21.0 million (£19.6 million net of fees and expenses). This constituted a Placing, Retail Offer and Open Offer of 419,999,957 Ordinary shares at a price of 5 pence. These shares represented 39% of the enlarged Ordinary share capital.

In July 2019 Velocys completed a gross fundraise of £7.0 million (£6.6 million net of fees and expenses). This constituted a firm placing of 233,333,335 Ordinary shares at a price of 3 pence with existing and new shareholders. These shares represented 36% of the enlarged Ordinary share capital.

A total of 51,792,800 (2019: 56,870,395) options to subscribe for ordinary shares of Velocys plc have been granted and are outstanding at 31 December 2020 under the employee option schemes operated within the Company and contracts for options granted to a limited number of consultants. Details are given in note 15.

Notes to the consolidated financial statements (continued)

25. Called up share capital and reserves (continued)

Reserves

Foreign exchange reserve relates to the exchange differences arising from the retranslation of the results and opening net assets of foreign subsidiaries. Changes in the reserve are included in other comprehensive income. At 31 December 2020, the Company's foreign exchange reserve was a credit balance of £3,038,000 (2019: £3,289,000).

The share-based payment reserve records the IFRS 2 charge for equity settled share-based payment awards. At 31 December 2020, the Company's share-based payment reserve was £16,602,000 (2019: £16,225,000).

26. 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. Details are given in note 19. At 31 December 2020 and 31 December 2019, the Company did not have any short-term or low-value leases with lease term greater than one month.

27. Borrowings

Borrowings comprise a loan received from the Pay-check Protection Program as part of a US Federal Government stimulus package to support small businesses in the US during the COVID-19 crisis. It is an unsecured loan with a 2-year maturity and a fixed rate of interest of 0.98%. See note 24 for further details including the criteria for loan "forgiveness" for which the Company applied in January 2021.

The book value and fair value of borrowings are as follows.

	Book value £'000	**Fair value** £'000
Current		
Unsecured government loan	152	152

	Book value £'000	**Fair value** £'000
Non-current		
Unsecured government loan	371	371

Borrowings are repayable as follows.

	2020 £'000	**2019** £'000
Fixed-rate borrowings		
Expiry within 1 year	152	–
Expiry within 1-2 years	371	–
Total	523	–

The currency profile of the borrowings are as follows.

	2020 £'000	**2019** £'000
US dollars	523	–

28. Other liabilities

Other liabilities are comprised of contract liabilities related to the development funding received from industry partners in respect of the UK Altalto Immingham waste-to-jet fuels project, being £474,000 as at 31 December 2020 (2019: £2,804,000).

29. Deferred revenue

Deferred revenue consists of contract liabilities as a result of instances in which the Company 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's contracts can require significant judgment.

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

£'000	Catalyst	Reactor	License	Total
At 1 January 2019	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
Contract liabilities incurred	1,155	969	–	2,124
At 31 December 2020	3,186	3,771	1,199	8,156

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 approximately 95% of the deferred revenue as at 31 December 2020 could be recognised as revenue in 2021 if the related performance obligations are met.

30. Related parties

The participation of each of Ruffer LLP and Lansdowne Partners in the July 2020 Placing constitutes a related party transaction under the AIM Rules as each is a substantial shareholder (within the meaning of the AIM Rules). Ruffer LLP subscribed for 88,604,000 Placing Shares at the Placing Price of 5 pence per share, and Lansdowne Partners subscribed for 60,000,000 Placing Shares at the Placing Price. The Directors consider, having consulted with Numis Securities Limited, the Company's nominated advisor at that time, that the terms of the related party transaction were fair and reasonable.

Disclosures related to key management personnel can be found in the Directors' remuneration report, see pages 36 to 40. Only the Executive and Non-Executive Directors are recognised as being key management personnel.

31. Net cash/(debt) reconciliation

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

	2020 £'000	2019 £'000
Cash and cash equivalents	13,051	4,797
Borrowings	(523)	–
Lease liabilities	(740)	(924)
Net cash/(debt)	11,788	3,873
Cash and cash equivalents	13,051	4,797
Gross debt – fixed interest rate	(1,263)	(924)
Net cash/(debt)	11,788	3,873

	Liabilities from financing activities				
	Borrowings £'000	Leases £'000	Sub-total £'000	Cash/bank overdraft £'000	Total £'000
Net cash/(debt) as at 1 January 2019	(289)	(1,038)	(1,327)	6,964	5,637
Cash flows	281	114	395	(1,304)	(909)
Other changes	1	–	1	–	1
Foreign exchange adjustments	7	–	7	(863)	(856)
Net cash/(debt) as at 31 December 2019	–	(924)	(924)	4,797	3,873
Cash flows	(541)	161	(380)	9,158	8,778
Foreign exchange adjustments	18	23	41	(904)	(863)
Net cash/(debt) as at 31 December 2020	(523)	(740)	(1,263)	13,051	11,788

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.

Notes to the consolidated financial statements (continued)

32. Post financial position events
The following events took place after 31 December 2020.

F4C grant from the Department for Transport
In January 2021, the Company received £290,000 of grant funding for the Altalto waste-to-fuels project from the UK Department for Transport ("DfT"), under the Future Fuels for Flight and Freight Competition ("F4C"). The DfT made a total of £0.5m available to Velocys under Phase Two of the scheme and the Company expects to receive the remaining £210,000 in the first half of 2021 subject to completion of project milestones.

US SBA loan forgiveness application
In April 2020, the Company received a $709,000 (£567,000) 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 was 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 met the forgiveness criteria and submitted its application to the SBA in January 2021.

Altalto Joint Development Agreement
In January 2021, by mutual consent of the parties to the Altalto Joint Development Agreement, Shell International Petroleum Company Limited ("Shell") withdrew from the agreement. Velocys and British Airways plc ("British Airways") will continue to work together in order to secure finance for the Altalto Immingham plant. Shell will no longer have an option over shares in Altalto Limited (a subsidiary of the Company), nor any rights or obligations in relation to the Altalto project. The Altalto project has no immediate funding calls and will continue according to its existing development plan. There is no direct financial impact on Altalto or Velocys as a result of these changes.

Collaboration Agreement with Toyo Engineering Corporation
In February 2021, the Company announced the signing of a collaboration agreement with Toyo Engineering Corporation ("Toyo") to start the development of their commercial projects to produce sustainable aviation fuel and other renewable fuels in Japan. The agreement follows on from the successful work already conducted in 2020 between Velocys and Toyo at the biomass-to-jet-fuel demonstration facility in Japan. The Company will grant an exclusive right for Toyo to secure and use the licence and technical services of the Velocys Fischer-Tropsch technology for a commercial plant in Japan. An advance deposit of $4.0m (£3.0m) was received in 2019 of which $3.5m (£2.6m) remains in escrow, which will be offset against future revenues.

Grant of share options to Executives and employees
In February 2021, the Company granted options under the 2012 Share Option Scheme totalling 14,088,205 to Executives and senior management in respect of 2020 performance and options totalling 500,000 to new employees who joined the Company during 2020. The exercise price was set at the time of grant at 7.86 pence being the highest of the share price at the last fund raising, the share price on the date of grant and the weighted average share price for the month prior to grant. The Executive Directors, Mr. Wareborn and Mr. Morris received a total of 3,264,503 and 2,938,053 options respectively, allocated equally between time-based and performance-based options.

Extension of the Altalto option agreement
In March 2021, the Company announced that it has agreed with British Airways to extend the Altalto option agreement to 31 March 2022. Exercise of the option would give both parties, Velocys and British Airways, equal equity ownership (50/50) of Altalto Ltd and the right to appoint a director. There is no impact on the financial results for the year ended 31 December 2020.

Velocys plc statement of financial position

as at 31 December 2020

	Note	**2020 £'000**	2019 £'000
Assets			
Non-current assets			
Investments in subsidiaries	9	9,121	9,121
Property, plant and equipment	8	10	27
		9,131	9,148
Current assets			
Trade and other receivables	10	9,805	1,400
Current income tax asset	6	595	539
Cash and cash equivalents		6,870	1,492
		17,270	3,431
Total assets		26,401	12,579
Liabilities			
Current liabilities			
Trade and other payables	11	(341)	(1,088)
Total liabilities		(341)	(1,088)
Net assets		26,060	11,491
Capital and reserves attributable to owners of Velocys plc			
Called up share capital	13	10,642	6,438
Share premium account	13	199,701	184,256
Share-based payment reserve	13	16,345	16,225
Accumulated losses			
At 1 January		(195,428)	(185,563)
Loss for the year attributable to owners		(5,200)	(9,865)
Total equity		26,060	11,491

The notes on pages 88 to 94 are part of these parent company financial statements.

The financial statements on pages 85 to 94 were approved by the Board of directors on 14 May 2021 and signed on its behalf by:

Henrik Wareborn
Chief Executive Officer

Company number 05712187

Velocys plc statement of changes in equity

for the year ended 31 December 2020

	Called up share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 2019	4,105	180,016	16,143	(185,563)	14,701
Net loss for the year	–	–	–	(9,865)	(9,865)
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
Net loss for the year	–	–	–	(5,200)	(5,200)
Total comprehensive expense	–	–	–	(5,200)	(5,200)
Transactions with owners					
Share-based payments – value of employee services	–	–	120	–	120
Proceeds from share issues	4,200	15,437	–	–	19,637
Proceeds from options exercised	4	8	–	–	12
Total transactions with owners	4,204	15,445	120	–	19,769
Balance at 31 December 2020	10,642	199,701	16,345	(200,628)	26,060

The notes on pages 88 to 94 are part of these parent company financial statements.

Velocys plc statement of cash flows

for the year ended 31 December 2020

	Note	**2020 £'000**	2019 £'000
Cash flows from operating activities			
Operating loss before tax		(5,398)	(10,200)
Depreciation of property, plant and equipment	8	17	6
Impairment of investments in subsidiaries	9	–	3,322
Impairment of loans due from subsidiaries	10	1,756	127
Share based payments		120	16
Changes in working capital:			
Trade and other receivables		(117)	(1,523)
Trade and other payables		(747)	1,013
Cash consumed by operations		(4,369)	(7,239)
Tax credit received		539	384
Net cash used in operating activities		(3,830)	(6,855)
Cash flow from investing activities			
Loans (advanced to)/received from subsidiary undertakings		(10,044)	66
Purchase of property, plant and equipment	8	–	(33)
Interest received		–	53
Net cash generated from investing activities		(10,044)	86
Cash flows from financing activities			
Proceeds from issues of shares	13	21,000	7,000
Costs of issuing shares	13	(1,363)	(427)
Proceeds from exercise of options		12	–
Net cash generated from financing activities		19,649	6,573
Net movement in cash and cash equivalents		5,775	(196)
Cash and cash equivalents at beginning of year		1,492	1,803
Exchange movements on cash and cash equivalents		(397)	(115)
Cash and cash equivalents at end of year		6,870	1,492

The notes on pages 88 to 94 are part of these parent company financial statements.

Notes to the financial statements of Velocys plc

1. General information

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

2. Accounting policies

The principal accounting policies applied in the preparation of these parent company financial statements are the same as those of the Company unless otherwise specified. An additional accounting policy for the parent company, in respect of its investments in subsidiaries, is disclosed in note 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 57 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 £5,200,000 (2019: loss £9,865,000).

Going concern

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

Accounting developments

New and amended standards adopted by the parent company

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

Financial risk management policies

Financial risk management policies are set out in the Strategic report on pages 23 to 26, and in note 24 of the consolidated financial statements.

Capital management policies

Capital management policies are set out in note 24 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 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
Trade and other receivables	10
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.

	2020 £'000	2019 £'000
Impairment of investment in subsidiaries	–	(3,322)
Impairment of loans due from subsidiaries	(1,756)	(127)
Total	(1,756)	(3,449)

At the end of 2020 and 2019, the parent company reviewed for impairment its investments in subsidiaries by reference to the respective closing market capitalisation value. It concluded that no impairment was required as at 31 December 2020 as the market capitalisation value significantly exceeded the book value of its investments in subsidiaries. As a result of the same analysis in 2019, Velocys plc recorded an impairment of £3,322,000 related to its investment in subsidiaries.

The parent company recorded a total loss allowance at 31 December 2020 of £1,883,000 (2019: £127,000) in respect of loans made to subsidiaries, following an assessment of expected credit losses. Further details are set out in note 10.

5. Revenue

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

For the year ended 31 December 2020, the parent company recognised royalty revenue of £nil (2019: £584,000).

6. Income tax

	2020 £'000	2019 £'000
Current tax:		
R&D tax credit relating to prior years	–	202
R&D tax credit relating to current year	(595)	(539)
Current tax total	(595)	(337)
Income tax total	(595)	(337)

Due to the availability of losses incurred in the year, there is no charge to corporation tax. The parent company recognised £595,000 for R&D tax credits in 2020 (2019: £337,000).

The actual tax credit for the current and previous year is lower (2019: lower) than the theoretical amount that would arise using the tax rate for the reasons set out in the following reconciliation.

	2020 £'000	2019 £'000
Loss before income tax	(5,795)	(10,200)
Tax calculated at domestic tax rates applicable to losses	(1,101)	(1,938)
Tax effects of:		
Expenses not deductible for tax purposes	1	2
Impairment loss not deductible for tax purposes	335	655
Remeasurement of deferred tax for changes in tax rates	(700)	–
Unutilised/(utilised) tax losses	1,465	1,281
R&D tax credit	(595)	(337)
Income tax total	(595)	(337)

In 2020, the impairment loss not deductible for tax purposes represents the loss allowance recorded on loans due from subsidiaries as described in note 10. In 2019, the impairment loss related to the impairment of investment in subsidiaries as described in note 9.

The applicable tax rate was 19% (2019: 19%).

In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the UK corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020 so the unrecognised UK deferred tax balances have been measured at 19% (recognised: £nil). In the Spring Budget 2021, the UK Government announced that the headline UK corporation tax rate would increase from 19% to 25% from 1 April 2023 on profits in excess of £250,000. A small profits rate of 19% will apply to profits of £50,000 or less and for companies with profits in between these amounts there will be a gradual increase in the effective corporation tax rate. As this new law had not been substantively enacted at the balance sheet date current tax is calculated at 19%.

Notes to the financial statements of Velocys plc (continued)

7. Deferred tax

The parent company has not recognised a deferred tax asset or liability in 2020 (2019: £nil).

	2020 £'000	2019 £'000
Unrecognised		
Deferred tax assets		
Trading losses	(7,354)	(5,952)
Share based payments	(321)	–
Total	(7,675)	(5,952)

At 31 December 2020, the parent company had a net unrecognised deferred tax asset of £7,354,000 (2019: £5,952,000) arising from trading losses since incorporation. No recognition of the net deferred tax asset has been made at 31 December 2020 (2019: £nil) on the grounds of uncertainty over its recoverability in light of the Company's nascent revenue streams and commitment to continued investment in the development of its biorefineries, and therefore there is no impact on the current or prior year's income statement.

100% of the unrecognised deferred tax asset in respect of trading losses (2019: 100%) is anticipated to remain available indefinitely to offset against future taxable trading profits.

The unrecognised deferred tax asset of £321,000 (2019: £nil) in respect of share based payments is calculated by reference to the intrinsic value of outstanding share options as at 31 December.

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 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.

2020	Furniture and Fixtures £'000	Total £'000
Cost		
At 1 January 2020	33	33
Additions	–	–
At 31 December 2020	33	33
Accumulated depreciation		
At 1 January 2020	6	6
Charge for the year	17	17
At 31 December 2020	23	23
Net book amount		
At 31 December 2020	10	10

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.

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.

An impairment assessment was carried out on the parent company's investment in subsidiaries at 31 December 2020 and no impairment was indicated. Velocys plc used the total value of its equity based on the AIM-listed shares of Velocys plc for calculating the recoverable amount, consistent with the impairment analysis performed in the prior year. The parent company has both equity and debt investments in its subsidiaries, which are compared to the recoverable amount. On this basis, the impairment assessment indicated that the carrying value of the investments in subsidiaries was lower than the recoverable amount, determined by fair value less costs of disposal. In the previous year, the assessment indicated that the carrying value of the investments in subsidiaries was higher than the recoverable amount by £3,322,000 and therefore an impairment was recorded.

The parent company also decided not to reverse prior year impairments at 31 December 2020, despite the market capitalisation value exceeding the carrying amount of its investments in subsidiaries, as concluded that the current commercial position of the Velocys group, without any significant new customer contracts or additional investors into the reference projects, alongside the continuing economic impact of the COVID-19 pandemic outweighed the other positive aspects considered.

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

	2020		2019	
	Capital contributions to subsidiaries £'000	Total investment in subsidiaries £'000	Capital contributions to subsidiaries £'000	Total investment in subsidiaries £'000
Investments in subsidiaries				
At 1 January	9,121	9,121	12,377	12,377
Capital contributions	–	–	66	66
Impairment of subsidiaries	–	–	(3,322)	(3,322)
At 31 December	9,121	9,121	9,121	9,121

Notes to the financial statements of Velocys plc (continued)

9. Investments in subsidiaries (continued)

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 indirectly owned subsidiaries of the parent company whose immediate parent is not Velocys plc.

Subsidiary undertakings	Country of incorporation or principal business address	Principal activity	% Holding (all ordinary share capital)
Velocys, Inc.**	Delaware, USA	Design, development and exploitation of its microchannel technologies	100
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.

10. Trade and other receivables

	2020 £'000	2019 £'000
Trade and other receivables – current	175	58
Amounts due from group undertakings	9,630	1,342
Total	9,805	1,400

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

A loss allowance of £1,756,000 was recognised in relation to the loans made to subsidiaries (2019: £127,000). At 31 December 2020 the total loss provision was £1,883,000 (2019: £127,000).

Critical estimates and judgements

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

In accordance with IFRS9, the parent company determined that there had not been a significant increase in credit risk during the year and the loans were categorised as stage 1. A probability of default of 29.76% was applied, based on external market data for corporate bond default rates for CCC/C grade bonds. Further analysis was performed to determine a loss given default for each loan, taking into account the available liquid assets of the respective subsidiaries.

11. Trade and other payables: current

	2020 £'000	2019 £'000
Trade payables	95	62
Accruals	246	135
Amounts due to group undertakings	–	891
Total	341	1,088

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 (2019: 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 24 to the consolidated financial statements).

Financial risks

The risks that the parent company faces are intrinsically linked to those of the Company, see note 24 to the consolidated financial statements. No mitigation of this risk is taken at parent company level.

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

	2020 £'000	2019 £'000
Assets		
Cash and cash equivalents	6,870	1,492
Trade and other receivables excluding non-financial assets	175	53
Loans receivable from subsidiaries	9,630	1,342

	2020 £'000	2019 £'000
Liabilities		
Trade and other payables excluding non-financial liabilities	95	62
Loans payable to subsidiaries	–	891

In 2020 and 2019, no share options were exercised which resulted in an obligation for the parent company to fund the Employee Benefit Trust. For additional information related to Share-based payments, see note 15 to the consolidated financial statements.

13. Called up share capital

Disclosures in respect of the share capital of Velocys plc are provided in note 25 to the consolidated financial statements.

14. Commitments

The parent company has no right-of-use asset leases (2019: nil) and no capital commitments (2019: nil).

15. Employee benefit expense

Short-term employee benefits

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

Pensions

The parent company operates various defined contribution pension schemes for its employees. The parent 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 parent company has no further payment obligations once the contributions have been paid.

Notes to the financial statements of Velocys plc (continued)

15. Employee benefit expense (continued)

Employees

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

	2020 number	2019 number
Administration	6	6
Total average headcount	6	6

Their aggregate remuneration comprised the following items.

	2020 £'000	2019 £'000
Wages and salaries	1,090	303
Short-term non-monetary benefits	26	–
Social security contributions and similar taxes	204	31
Defined contribution pension costs	48	20
Share-based payments granted to directors and employees	37	16
Total remuneration	1,405	370

Directors' remuneration

Details of the remuneration paid to directors of the parent company are provided in the Directors' remuneration report on pages 36 to 40.

Auditors' remuneration

Details of remuneration paid for the audit of the parent company are disclosed in note 11 to the consolidated financial statements.

16. Related parties

The participation of each of Ruffer LLP and Lansdowne Partners in the July 2020 Placing constitutes a related party transaction under the AIM Rules as each is a substantial shareholder (within the meaning of the AIM Rules). Ruffer LLP subscribed for 88,604,000 Placing Shares at the Placing Price of 5 pence per share, and Lansdowne Partners subscribed for 60,000,000 Placing Shares at the Placing Price. The Directors consider, having consulted with Numis Securities Limited, the nominated advisor at that time, 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 2020.

Grant of share options to Executives and employees

In February 2021, the Company granted options under the 2012 Share Option Scheme totalling 14,088,205 to Executives and senior management in respect of 2020 performance and options totalling 500,000 to new employees who joined the Company during 2020. The exercise price was set at the time of grant at 7.86 pence being the highest of the share price at the last fund raising, the share price on the date of grant and the weighted average share price for the month prior to grant.

The Executive Directors, Mr. Wareborn and Mr. Morris received a total of 3,264,503 and 2,938,053 options respectively, allocated equally between time-based and performance-based options.

Directors, secretary and advisors to the Company

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Velocys
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Oxford
OX4 4GA

Velocys plc registration no.
05712187

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

Company secretary
Jeremy Gorman

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