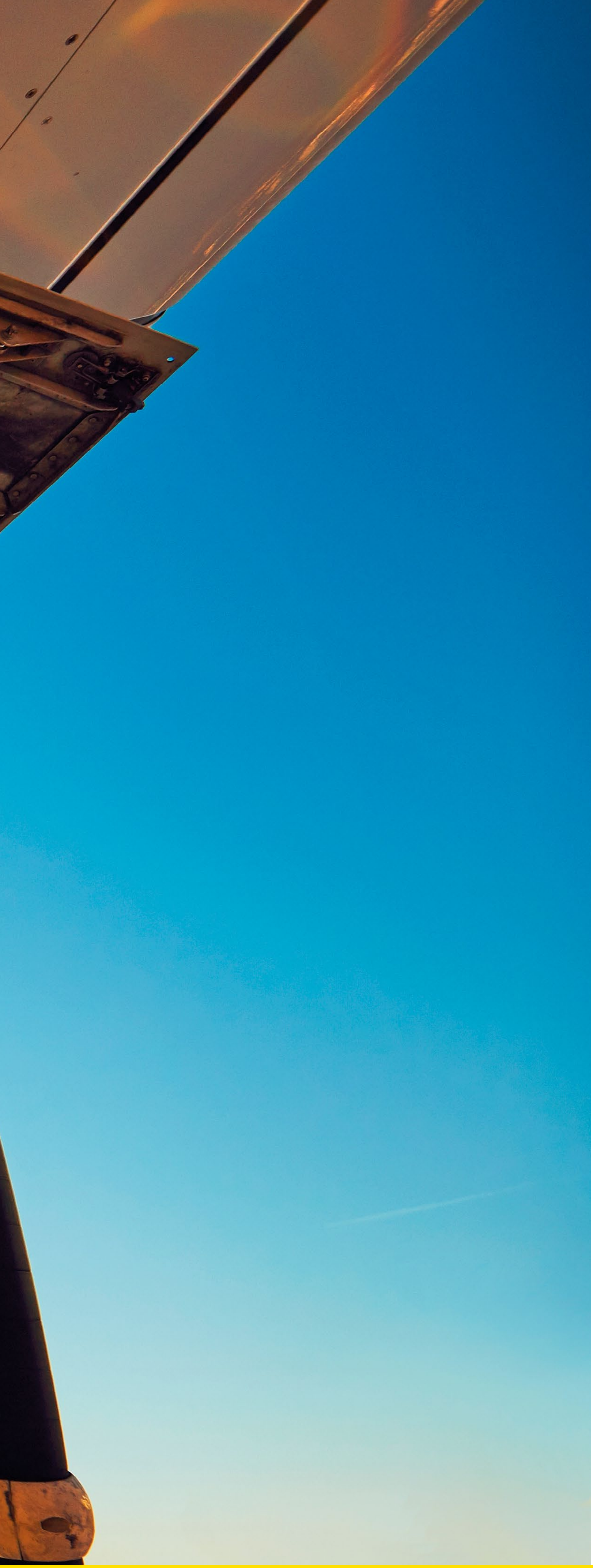
Scalable, sustainable growth

VELOCYS


JET FUEL
FOR SPECIFICATIONS REFER TO FLIGHT MANUAL
MAX. PRESSURE
50 P.S.I. 3.5 BARS
MAX. SUCTION
11 P.S.I. 0.8 BARS



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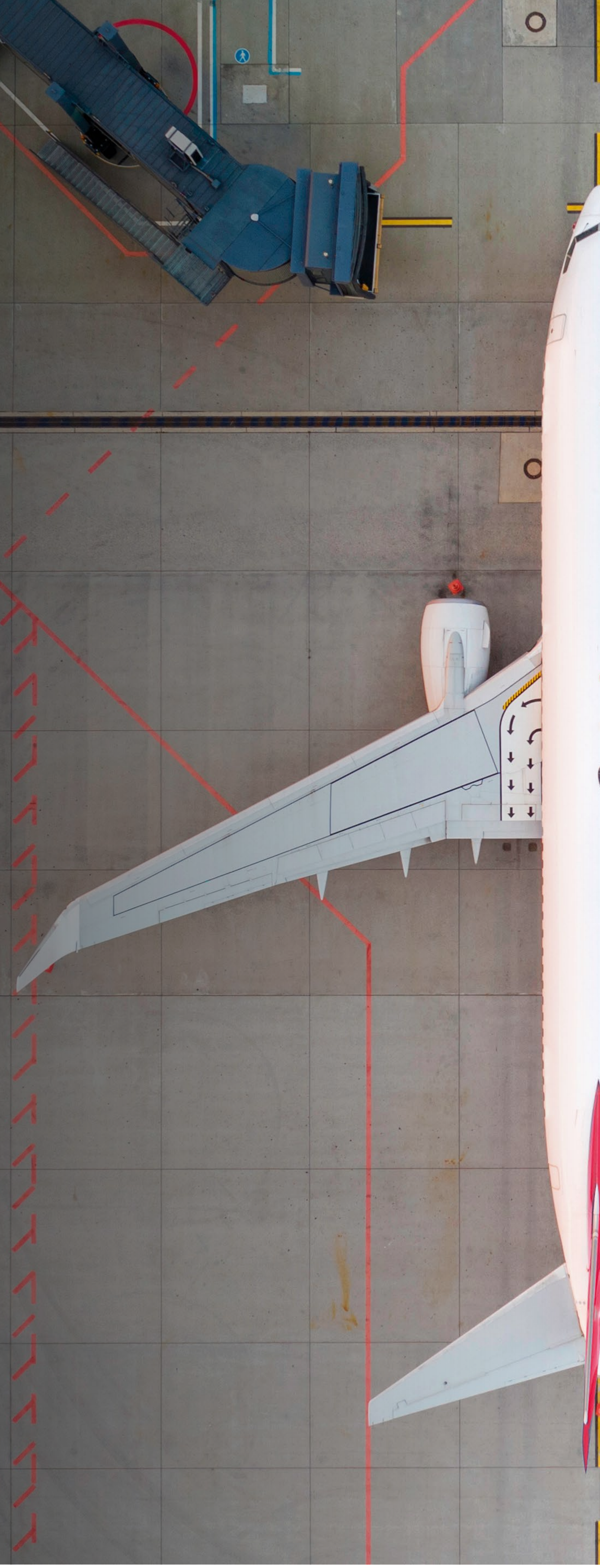

Enabling the decarbonisation of aviation

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

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

The fuel created through Velocys' technology is a negative carbon intensity fuel with carbon sequestration. It has the potential to support national fuel security initiatives as well as delivering environmental improvements as a cleaner burning fuel, compared to conventional fossil fuels, with greatly improved air quality. The fuel contains much lower sulphur oxide, nitrogen oxide and particulate matter emissions when combusted in conventional engines and turbines.

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

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

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

Highlights

£26.2m

Fundraise (before expenses) in December 2021

£8.3m

Total revenue recognised from licensing fees and sales of reactors and catalyst for customer contract awarded in 2017

£3.4m

Gross profit (2020: £0.1m)

-£9.0m

Operating loss (2020: £8.8m)

£25.5m

Cash at year end (2020: £13.1m)

£2.4m

Green Fuels, Green Skies grant from the UK Department for Transport secured for the Altalto waste-to-jet fuel project

£2.5m

Control of the Altalto Immingham site secured through part payment of £2.5m in December 2021

100%

Multi-year offtake agreement with Southwest Airlines and an MOU with IAG for 100% of the SAF produced and environmental credits generated by Bayou Fuels

Ann Markey and Tom Quigley appointed as **Non-Executive Directors**

David Bate, General Counsel, and Dawid Duvenhage, VP Catalysis, appointed to **senior management**

Velocys included as constituent of newly launched **clean energy index Active Net Zero Clean Energy Universe**

Koch Project Solutions **appointed for pre-FEED engineering phase** and potential EPC for Bayou Fuels

British Airways **extended option agreement** with Velocys

Agreement with TOYO Engineering of Japan in February 2021 **to develop a commercial project to produce SAF**

Velocys FT technology selected for an e-fuels project commissioned by the Ministry of the Environment in Japan

Chairman's statement

The year saw a strong performance from Velocys towards its financial, commercial and technical objectives.

We adapted in 2020 to working remotely and effectively during the pandemic without losing momentum and we built on this learning in 2021 to ensure seamless customer delivery during the year. The Company achieved another year with zero lost time incidents across all three sites, a health and safety record of real note.

The past twelve months have seen greatly increased engagement and deeper commitments from leading global organisations to support policy objectives aimed at reducing greenhouse gas emissions and driving an increase in the use of renewable energy.

The 2021 United Nations Climate Change Conference ("COP26") saw further commitment to support sustainable aviation with the launch of the International Aviation Climate Ambition Coalition ("IACAC") where 26 member states, including the UK, pledged to work together to support the adoption of global goals for international aviation CO_2 emissions by the International Civil Aviation Organization and to support specific measures to reduce aviation emissions including sustainable aviation fuels.

To make meaningful progress, there must be increased collaboration and innovation from all sides. Industry players with proven technologies need to work alongside policymakers at a governmental level and with other key stakeholders to drive the necessary change to address aviation emissions by including these emissions in their national climate targets – something the UK, who led the declaration, committed to earlier this year.

Velocys' versatile and innovative technology adds significant IP and optimisation to the Fischer Tropsch ('FT') process and is ideally placed to play a key role in supporting the international decarbonisation agenda.

Board

After nine years of service to the Company, Sandy Shaw stepped down from the Board at the 2021 AGM. Following an extensive search, we have strengthened the Board with the appointment of two new Non-Executive Directors: Ann Markey and Tom Quigley. Both Ann and Tom bring significant financial and operational experience to the Board at a time when the Company is looking to progress towards securing funding for the next stage of development for its UK and US reference projects and to build our technology delivery capability to satisfy the ever-growing global demand.

We have taken the opportunity to strengthen the Board's oversight of the Company's risk management and sustainability activities by establishing a Risk and Sustainability Committee, chaired by Darran Messem. The Audit Committee is now chaired by Ann Markey, and the Remuneration Committee is chaired by Tom Quigley.

In February 2022, Andrew Morris, CFO, advised the Board of his intention to leave Velocys in Q2 2022 in order to pursue other career opportunities. Andrew has played a key role in strengthening and consolidating the finance function of the Company, and the Board is grateful for his service and his commitment. The recruitment process of our next CFO is well under way.

Leadership

David Bate was appointed General Counsel, Vice President Legal and Compliance in March 2021. David's most recent position was at Schlumberger where he was responsible for all legal support to the group's upstream asset portfolio covering M&A, business development, risk and project management, development financing and other regulatory matters.

Andy Bensley joined Velocys as the Global Head of Business Development and Technology Delivery in February 2022. He has 35 years of international experience in senior corporate, functional leadership and project delivery roles in both major international oil companies and EPC contractor organisations. In this newly created role, Andy will focus on the acceleration of the commercialisation of the Velocys technology in order to cultivate our global client pipeline and enhance our technology delivery capability.

Heinz Robota, VP Technology, is retiring from his role after 10 years at Velocys, having led the catalysis efforts from research and development ("R&D") through to commercial scale demonstration of Velocys' super active FT catalyst. Heinz will be succeeded by Dawid Duvenhage who has over 30 years' experience in catalyst development, scale-up and commercialisation. Heinz will continue to support Velocys as a member of our Senior Scientific Advisory Board.

Outlook

The recent successful Placing and Open Offer will enable us to expand our reactor core assembly capability, ensuring that we will be able to meet strong customer demand for our technology, driven by SAF mandates. We also look forward to accelerating our reference projects in 2022.

A key focus will be to augment our commercial and business development function to serve a wide range of customers with an integrated, standardised service offering and a capital light licensing model deployed for biorefineries with integrated CO_2 sequestration as well as in the new e-fuels sector.

Through our established strategic alliances with our technology and engineering partners, we will be able to offer a fully integrated end-to-end solution for converting sustainable non-fossil feedstocks into SAF.

I would like to thank Henrik Wareborn, his leadership team and everyone at Velocys for their hard work and commitment in 2021. Their energy, enthusiasm and professionalism has enabled our strategic success during this important year for Velocys.

Philip Holland
Chairman
16 May 2022

CEO's statement

As a sustainable fuels technology company, Velocys has a solution to reduce greenhouse gas emissions in the aviation sector.

Our IP-protected technology enables the production of a synthetic fuel with the same chemical composition of fossil jet fuel and, as a drop-in fuel, utilises sustainable waste feedstocks, which have no alternative use, such as woodchips and residual waste. It is a negative carbon intensity fuel with carbon sequestration and not only has the potential to support national fuel security initiatives but also delivers environmental improvements as a cleaner burning fuel.

Global opportunities for the Velocys technology are growing rapidly and, with an international roster of blue-chip customers, partners, and industry stakeholders, Velocys is well positioned with its integrated, standardised service offering.

Our intention is to take advantage of this opportunity by focusing on markets with the most advantageous regulatory tailwinds, expanding our business development function and offering our commercially demonstrated, IP-protected technology to a broad global customer base.

This year saw the achievement of a number of important objectives in our growth strategy, including multi-year offtake agreements with IAG (whose constituent airlines include British Airways, Aer Lingus, and Iberia) and Southwest Airlines, the selection of our technology for an e-fuels project commissioned by the Ministry of the Environment in Japan and a successful £26.2m (before expenses) fundraise to enable us to accelerate our commercialisation strategy.

Commercial and operational achievements

A significant validation of the Velocys technology occurred in a commercial flight by Japan Airlines in June 2021. The SAF used on the plane was produced at the NEDO1 demonstration in Nagoya, Japan, and synthesised in a Velocys FT reactor from gasified woodchips. This flight was the first commercial flight in the world to use SAF derived from woodchips and synthesised into aviation fuel. SAF's advantage is its availability for immediate use and its ability to be blended in existing airport fuelling systems without any segregation or modification of the jet turbines.

Our collaboration with TOYO was further strengthened with Velocys' FT technology being selected for an e-fuels project by a consortium of six leading Japanese companies. This validates an additional application of Velocys' technology for the 'power to liquids' pathway whereby hydrogen and carbon gases are generated from 'co-electrolysis', instead of gasification, to be synthesised to liquid hydrocarbon fuels using Velocys' Fischer Tropsch Synthesis ("FTS").

TOYO also started the advanced engineering and design phase of a commercial scale biofuel refinery in Japan for conversion of forestry residue to SAF, which will be enabled by Velocys' FT technology.

Progress was made on the Bayou Fuels reference project in Mississippi, US, which has the intended nameplate capacity to produce 132m litres of SAF per year from woody biomass feedstock. In November 2021, Velocys announced 15- and 10-year offtake arrangements for all the SAF and the associated environmental credits expected to be generated by the Bayou Fuels Project with Southwest Airlines and IAG, respectively. These agreements represent a multi-billion-dollar balance sheet commitment for SAF by these two major airlines. They also underpin the financing of the construction capital for the Bayou Fuels biorefinery.

Work also continued on the Altalto project located in North East Lincolnshire, UK, with the intended nameplate capacity to produce 80m litres of SAF per year from municipal solid waste. As previously reported, the site has full planning permission, and its main commercial sponsor is British Airways. In December 2021, we exercised an option agreement to acquire Rula Developments (Immingham) Ltd, which owns the Altalto site. In line with our planned strategy to secure long term access to the Altalto site without significant capital outlay at this time, our announcement in March 2022 noted that Altalto sold Rula

Developments to funds managed by Foresight Group LLP. Velocys holds a three year repurchase option and Foresight has been granted first right of refusal for up to a £100m investment in the Altalto project. This is also in line with the rights of British Airways and other future investors. Further information is provided in the Financial review.

During the year, Velocys and British Airways were awarded a grant of up to £2.4 million from the UK Government's Green Fuels, Green Skies scheme, to accelerate the technical development of Altalto.

As the year closed, Velocys concluded an oversubscribed fundraise of £26.2 million (before expenses), with strong support from both existing and new shareholders. This capital raise will help us to accelerate our reactor and catalyst manufacturing capability during 2022 to unlock a steady growth of customer revenues and positive cash flow for Velocys.

I am very appreciative of the support shown by our current and new shareholders. Notably, we welcomed a number of high-profile UK and US institutional investors onto our register, some of which are now new major shareholders. I am grateful for the seamless and exceptional preparation and execution of our Placing by our joint brokers, Panmure Gordon and Shore Capital, at the end of a successful year for Velocys.

I would like to thank Andrew Morris and Heinz Robota, both of whom announced that they are stepping down, for all their dedication to Velocys. In addition, I am pleased to confirm the strengthening of our management team during 2021 by the appointments of David Bate, Dr Dawid Duvenhage and, more recently, Andy Bensley, as we continue our technical and commercial progress.

Above all, none of these accomplishments would have been possible without the dedication and expertise provided by the talented team at Velocys. I would like to thank everyone for their professionalism and commitment.

Sustainability

Velocys offers a sustainable technology solution to help meet the decarbonisation goals of our customers and partners as well as providing environmental benefits. All our employees play an important role in how we deliver sustainability both internally and externally, and are fully committed to this ethos and practice. Positive steps were taken in 2021 with the creation of a Risk and Sustainability Committee and we established a cross-functional team to develop a sustainability policy. For further information please refer to the ESG review.

Summary

Velocys is now well into our transition from R&D to technology delivery and commercialisation. Andy Bensley will help to lead this effort, which includes responsibility to prepare our reference project in Mississippi for Front End Engineering and Design ("FEED") and into execution as well as deliver the Altalto project under the Joint Development Agreement ("JDA") with British Airways.

We have an exciting pipeline of customer opportunities which is increasing in response to mandates and policy incentives being enacted by governments around the world in pursuit of decarbonisation. We are seeing high levels of interest from well-established and well-funded customers with access to suitable sites and abundant sustainable feedstocks. The ability of our technology to use a range of feedstocks provides opportunities for customers to utilise local sustainable resources, decreasing their reliance on imported crude oil and natural gas.

I look forward with confidence to another busy and successful year.

Henrik Wareborn
Chief Executive Officer
16 May 2022

Financial review

With gross profits of £3.4m in 2021 and the successful oversubscribed fundraise of £26.2m (before expenses) the Company has the strength to support delivery of its reference projects and supply to its customers.

Revenues

The Company[1] recognised revenue of £8.3m (2020: £0.2m). The 2021 revenue primarily comprised sales of reactors and catalyst, and licensing fees earned from our first major commercial client contract which commenced in 2017. The Company satisfied the performance obligations within the contract in 2021 following expiry of all contractual obligations and therefore determined that it was appropriate to recognise the revenue and the associated cost of goods. The Company also provided engineering services in Japan and recorded £0.2m in respect of this work. Overall, the gross profit for the year ended 31 December 2021 was £3.4m (2020: £0.1m).

Note

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.

Expenses and income

Administrative expenses increased by 44% to £13.3m (2020: £9.2m). In 2021, the Company was able to release £0.5m (2020: £3.0m) of the Altalto credit (being the advanced funding liability received from British Airways) against its operating costs as work was completed on the co-development project. Therefore, on a comparable basis, the Company's operating expenses have increased by approximately 13%.

Other income totalling £1.0m consisted of £0.5m from the forgiveness of a loan awarded under a US Federal Government stimulus package to support businesses during the COVID-19 crisis, £0.3m from the Green Fuels, Green Skies ("GFGS") grant awarded by the UK Department for Transport in 2021 and £0.2m from the second tranche of the Future Fuels for Flight and Freight ("F4C") grant awarded by the UK Department for Transport. In 2020 other income of £0.4m mainly consisted of £0.3m from the first tranche of the F4C grant.

Operating losses

Operating losses of £9.0m were in line with the previous year (2020: £8.8m).

Net assets and cash

The net assets of the Company were £29.7m, which is an increase of £16.6m compared to 2020. This increase was principally the result of an increase in cash of £12.5m, and non-current assets (less the related outstanding deferred consideration) of £2.5m. There was also a reduction in deferred revenue and the related costs which increased net assets by £2.9m. The net cash inflow to the Company in 2021 was £12.8m (2020: £9.2m) principally being cash generated from financing activities of £24.1m, attributed to £24.6m received net of expenses from the fundraise completed in December, less £3.2m used in investing activities and £8.1m used in operating activities. The Company continues to carefully manage its underlying cost base and spends prudently on strategy implementation. The Company incurs a proportion of its expenses in US dollars and has exposure to the US dollar exchange rate. This is hedged to the extent possible by holding cash reserves in US dollars. In addition, the majority of the Company's income is currently invoiced in dollars.

Acquisition of Rula Developments (Immingham) Ltd

In December 2021, Altalto Immingham Ltd, a 100% subsidiary of the Company, exercised an option to purchase Rula Developments (Immingham) Ltd. ("RDIL"), a property development company with an initial part-payment of £2.5m. RDIL owns the site of the proposed Altalto project, near Immingham in North East Lincolnshire, which is being jointly developed with British Airways and Velocys. The total consideration to acquire RDIL comprised a cash payment of £2.5m in December 2021 and a further deferred consideration amount of £7.25m, which has been recorded in current liabilities. The deferred consideration was settled in March 2022 when RDIL was sold to Foresight Group LLC.

The value of the net assets acquired was £9.8m. Further details are provided in note 4 of the consolidated financial statements.

Impairment assessment

There has been no change in the Board's assessment of the long-term potential of the Company's in-process technology assets, and therefore there has been no impairment or reversal of previous impairments of the Company's assets in 2021.

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. The market capitalisation value at 31 December 2021 was £103.1m compared to £108.0m at the previous year end. The Company's net assets were £29.7m (2020: £13.1m).

Alongside the share price of the parent Company, the Board also considers changes in a number of other indicators including:

- The present value of estimated future net cash flows, using the Company's internal forecasts.
- Global demand forecasts for sustainable aviation fuel.
- Government policy support and commitments for carbon reduction.
- Potential competing technologies.
- New commercial arrangements signed during the year.

In November 2021, the Company entered into its first offtake agreement, with Southwest Airlines ("Southwest"), for two thirds of the sustainable aviation fuel to be produced at the planned Bayou Fuels biorefinery project. A memorandum of understanding with International Consolidated Airlines Group S.A. ("IAG") was also concluded. While these two long-dated fuel offtake arrangements provide a high level of confidence of revenue for the Bayou Fuels project, which is an important step towards enabling capital financing for construction, until new commercial orders for the Company's reactors and catalyst are in place, this indicator alone is not considered sufficient to support a reversal of previous impairments.

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 totalling £9.2m (compared to the parent company's market capitalisation value of £103.1m) showed that no impairment indicators were identified and, as a result, no impairment was recognised (2020: £nil).

The parent company also assessed total loans of £22.6m due from its subsidiaries and as a result recorded a provision for expected credit losses ("ECL") of £2.0m (2020: £1.8m). The total ECL provision of £3.9m is eliminated on consolidation and therefore is not seen in the consolidated financial statements.

Funding

In December 2021 Velocys raised a total of £26.2m (before expenses) via a Placing and Open Offer. With this successful fundraise, the financial statements have been prepared on the going concern basis.

The Company's cash forecast includes the use of the net proceeds of the capital raised to:

- Invest in manufacturing capability to enable output of at least 12 reactors per year and in addition the build-up of reactor parts inventory to expedite commissioning of the manufacturing equipment.
- Complete work on the Bayou Fuels and Altalto reference projects to the point of securing external investment into the detailed engineering stage.
- Support process guarantees and equipment warranties required by clients.
- Strengthen the Company's business development function.
- Provide the working capital to support the Company's projected running costs.

Going concern

The directors are confident that the funding received in December 2021 is sufficient to enable the Company to support its activities for not less than the twelve months from the date of approval of these financial statements. The directors have therefore prepared the financial statements on a going concern basis. The financial statements do not include the adjustments that would arise if the Company and Velocys plc were unable to continue as a going concern.

Andrew Morris

Andrew Morris
Chief Financial Officer
16 May 2022

Environment, social and governance review

Letter from the Sustainability Officer
Lak Siriwardene

The principles of sustainability are central to Velocys, as a business that offers its customers a solution to decarbonise. Our unique technology enables the production of sustainable synthetic fuels which help meet net zero goals as well as deliver a positive environmental impact.

The fuels generated by our customers come from a variety of sustainable and responsibly sourced non-fossil-based solid feedstocks (woodchips and residual waste). The feedstocks are abundant and their use avoids adverse environmental impacts, such as landfill and the decomposition of non-processable wood (slash) on forest floors.

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

The Gasification-FT process is a viable route for the production of synthetic fuels for the decarbonisation of the aviation sector and will help our clients meet industry and government carbon reduction targets while also supporting national fuel security initiatives. Furthermore, the produced fuel is cleaner burning than fossil-derived equivalents, with greatly improved air quality with much lower sulphur oxide, nitrogen oxide and particulate matter emissions when combusted in conventional engines and turbines. The aim of our business is to have a positive environmental and societal impact, through our customers' and partners' clean fuel production operations, which will increase as our business grows.

Velocys also recognises the impact on the environment from our own business activities and has created a sustainability statement, which will be developed into a policy. We conduct our business with the objective of minimising the depletion of natural resources, reducing waste and lessening our contribution to climate change. The Company's energy consumption is below the 40 MWh threshold for Streamlined Energy and Carbon Reporting and therefore is not reported here. Velocys' ambitions and reporting commitments considers alignment with the UN SDGs (please refer to the table). This association and alignment took a further step in 2021 with Velocys committing to the SME Climate Hub to adopt sustainable measures with a pledge to achieve net zero.

In 2021, Velocys established a Risk and Sustainability Committee, chaired by Darran Messem, to maintain oversight of all sustainability-related activities. The committee reports to the Velocys Board on a quarterly basis. At an operational level, we have established a cross-functional ESG team, responsible for the sustainability strategy and performance of the business.

The Company has already been recognised by the LSE Green Economy Issuer classification, Active Net Zero Clean Energy Index and the PwC Net Zero Future50 report. This recognition and endorsement adds further value to our business offering to help meet industry net zero goals.

We look forward to further developing our sustainability programme to help meet the commitment for global decarbonisation and we continue to look at our own behaviour in a responsible manner. As part of our overall ESG outlook, we have a particular focus on environmental sustainability, employee welfare and health and safety.

Environmental Sustainability

Velocys has enhanced its governance structure and created a sustainability statement, which will be developed into a policy to reflect environmental responsibility and sustainability practices.

Alongside the development of a sustainability policy, we will be working with our customers, partners, suppliers and other stakeholders to improve our overall sustainability performance. The SAF produced using Velocys' technology will greatly benefit society, including airline passengers and users of air freight services who wish to meet their net zero targets and/or individual sustainability needs.

Employees

Velocys is committed to the welfare, safety and development of its employees and ensures the efficient delivery of company-wide support mechanisms and policies. The Company encourages equality, diversity and inclusion amongst its workforce.

Working at Velocys provides each employee with access to unique technologies, projects and facilities along with the opportunity to contribute and collaborate within an inclusive setting. Velocys is an equal opportunities employer and believes in respect, empowerment and creating an environment for each employee to reach their full potential. This is supported by competitive compensation and generous employee benefit packages. Our recruitment and talent management practices ensure Velocys has a gifted and diverse resource pool to help meet business needs.

On 31 December 2021, Velocys had 33 employees, 33% of which were female (2020: 30%) and one of the six members of the Board was female (2020: one of the five members).

Health and Safety

In 2021, Velocys maintained its record of no Lost Time Accidents ("LTA") and no near misses for both its UK and US sites, including no reportable injuries or illnesses. The Velocys sites in the US have logged over 184,427 operating labour hours without an LTA since July 2018. The UK site continues to operate without any lost time, bringing the total number of operating labour hours without an LTA to over 431,957.

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

The Velocys COVID-19 response committee formed in 2020 continued during 2021 to proactively review the relevant local and national regulations and guidelines, while analysing data from the medical community and local governments, to help implement specific COVID-19 safety policies. Velocys' priority is to continue to keep all employees and visitors safe and healthy within the workplace. We have achieved zero workplace transmission through the collaborative effort of our employees and contractors.

We believe that social mobility and gender equality are important ways of improving diversity alongside the well-being of our people.

Our technology solution allows biorefineries to be built to produce sustainable synthetic fuels, which in turn promotes economic growth. Locally, the biorefineries will bring in investment, create jobs and boost the local economy through long-term employment and wider supply chain benefits.

Global customers can benefit from our unique technology offering to positively impact their industry and utilise infrastructure, mobilise people and give back to society.

Biogenic, non-recyclable residue from commercial, household and forestry can be converted into high value synthetic aviation fuel using the Velocys FTS technology replacing scarce and polluting fossil crude oil as feedstock for fuel production.

Sustainable fuels burn efficiently and significantly reduce greenhouse gas emissions and harmful particulate matter aiding better air quality and community health.

Key performance indicators and milestones

As the Company's business strategy is to license its core technology, the micro-channel synthesis reactors and highly reactive catalyst to produce sustainable fuels, the Company focused on delivery of its reference projects and the delivery of engineering to customers, while ensuring we have the right corporate structure to support these objectives.

Delivery of 2021 Objectives

2021 key priorities	Performance against priorities
Financial – Maintain effective control of costs and actively pursue new grant funding available to ensure the most efficient use of working capital and thereby maximising the Company's cash runway during the year.	The Company maintained strict cost control during the year in line with its operating budgets. Operating expenses were higher in 2021 than in 2020 largely due to the increased costs incurred on advancing the two reference projects. A new grant of up to £2.4m under the UK Government's Green Fuels, Green Skies programme was secured for Altalto.
Complete an equity fundraise, when appropriate, to ensure the Company has the funds to achieve its key milestones and operational objectives.	The Company completed a successful fundraise of £26.2m (before expenses) through a Placing and Open Offer in December 2021.
Reference projects development and technology adoption	
Bayou Fuels – Complete pre-FEED engineering work with technology partners to optimise the design of the biorefinery. Complete other prerequisites which maximise the project economics to enable the Series A fundraise to be launched.	Worley, supported by Koch Project Solutions, finalising pre-FEED engineering work. Velocys signed multi-year fixed price offtake agreement/MOU for 100% of the SAF and the associated environmental credits expected to be generated by the Bayou Fuels refinery with both Southwest Airlines and IAG.
Altalto – Secure control of the Immingham site, for which planning permission is granted, for the planned waste-to-jet fuel plant. Complete process engineering work, ensuring all eligible costs are recovered from the grants available (F4C and GFGS).	Velocys exercised an option over the site in December 2021, meaning together with British Airways, it had full control of the site at that time. The Company agreed to extend the current option agreement with British Airways for the Altalto project to 31 March 2022. This has been extended for a further year to 31 March 2023. Exercise of the option would give both parties equal equity ownership (50/50) of Altalto Ltd. Interim process engineering works were completed in January 2022 and all relevant costs have been claimed from the grants available.
Commercial delivery – Progress existing and new client opportunities for commercial SAF plants, with the aim of announcing at least one new agreement during 2021.	Collaboration agreement signed with TOYO Engineering for development of their commercial scale biomass-to-jet fuel project along with other renewable fuel opportunities. Velocys selected by TOYO Engineering to supply a compact FT reactor for a demonstration project in Japan to convert CO_2 and hydrogen directly to synthetic "e-fuels".

2021 key priorities	Performance against priorities
Manufacturing – Complete design and automation of the manufacturing facility to achieve significant increase in capacity.	Velocys has completed the design stage and has planned the purchase of new equipment along with identifying suitable premises for the new technical centre in Ohio, US in Q4 2021.
Governance and organisation – Launch the search for a new Non-Executive Director to be in post by Q3 2021.	The Company appointed two new Non-Executive Directors who together provide significant financial and execution experience. In addition, the Company took the opportunity to increase Board-level focus on sustainability by establishing a new Risk and Sustainability Committee.
Recruitment of leadership team positions in Legal and Catalysis to support business growth and ensure succession.	The Company appointed David Bate as General Counsel, VP Legal and Compliance in March 2021 and Dr Dawid Duvenhage as VP Catalysis in November 2021.
Environment, health & safety – Maintain the Company's focus on health and safety, targeting zero time lost due to workplace accidents. Continue to support employees through the COVID-19 restrictions and provide a safe and secure working environment.	The Company achieved zero time lost due to workplace accidents in 2021. The Company's COVID-19 response committee has continued to operate throughout 2021 and closely manages the return-to-site protocols and business travel procedures.

Financial results were reviewed on a regular basis by the Directors. Careful monitoring of cash and cash commitments was undertaken throughout the year to ensure that all fiduciary responsibilities and commitments of the Directors are met.

Risks and mitigation

Our approach to risk

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

The Audit Committee and the Risk and Sustainability Committee play a central role in supporting the Board in the review of the Company's risk and internal control processes, and in overseeing an organisation-wide approach to risk identification, management and mitigation. The Audit Committee primarily focuses on the Company's financial risks and has oversight of all risks for the purposes of ensuring appropriate disclosure in the Annual Report. The Risk and Sustainability Committee reviews the non-financial risks which are categorised as strategic, operational or reference project specific.

The Velocys risk management process

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

The principal risks which are considered to have a potentially material impact on the Company's long-term performance and delivery of its strategy are set out in the following table.

Emerging risks that may affect the Company's performance include supplier price increases leading to higher costs of plant and equipment for biorefinery projects as a consequence of supply chain restrictions, the price of oil/energy and the invasion of Ukraine. These are monitored closely by the Executives and the Board.

Principal risks	Description	Mitigations	Trend
Decarbonisation policy	• Key government policy support in our main markets in the US, UK and Europe is essential to ensure our clients' biorefineries obtain funding. • Policy support proportionate to avoided CO_2 emissions important to Velocys' competitive advantage.	• Established US Federal Renewable Fuel Standard ("RFS") and the Low Carbon Fuels Standard ("LCFS") in California, together with the proposed SAF Producers Tax Credit which is currently in progress through Congress as part of the Sustainable Skies Act and other legislation. • Government mandates for the usage of SAF worldwide, especially in the EU, along with many airlines pledging use of SAF, will help force key policy adoption. • Appointment of professional lobbyists to maintain contact with governments and regulators. • Executives and senior management involved in continued public communications with stakeholders and governments, who are increasingly concerned with security of supply.	

Principal risks	Description	Mitigations	Trend
Operational execution	• Increasing global pricing pressures on supply chain adversely affect customer/financiers price expectations. • Velocys manufacturing capacity constrained not meeting customer demand timing. • Key suppliers may be unable or unwilling to meet delivery or reliance targets. • Velocys business operations scale-up limited within the timelines required.	• All suppliers are carefully chosen for their relevant experience and the relationship with Velocys is maintained at the highest levels within both organisations to ensure agreed delivery and pricing framework. • Velocys manufacturing capacity is being increased to meet anticipated demand. • Human resources within Velocys are a key aspect of successful operational execution; a number of new capabilities and skillsets are being recruited into the organisation.	
Financing of reference projects	• Substantial external funding required for the Bayou Fuels and Altalto reference projects that will accelerate the adoption of the Company's technology.	• Strategic framework agreement with Koch Project Solutions (KPS) in place to support pre-FEED engineering, culminating in potential award of EPC contract for Bayou Fuels. • Multi-year fixed price offtake agreement/MOU for 100% of the SAF and the associated environmental credits to be generated by the Bayou Fuels refinery with both Southwest Airlines (SWA) and IAG. • Engineering work completed has optimised the design of the plants, maximising the returns expected from the projects.	

Risks and mitigation (continued)

Principal risks	Description	Mitigations	Trend
Competing technologies	• Alternative technologies may be developed and adopted in preference to the Company's FT technology, eroding the Velocys value proposition and reducing the size of the addressable market.	• Development of the Velocys technology, its IP protection and its ability to operate at commercial scale, has taken a significant investment and time to achieve. • Complexity of the integrated technology processes creates significant barriers to entry. • Existing relationships with customers such as TOYO and Red Rock, along with offtake agreements from SWA and IAG, ensure viability of Velocys technology. • Velocys FT technology with integrated Carbon Capture & Storage of CO_2 uniquely allows the flexible use of large-volume, low-cost sustainable feedstocks and generates clean burning, low carbon sustainable fuels. • The growing global SAF market is large enough to support multiple suppliers with demand likely to outstrip supply for a significant period of time.	
Funding and cashburn	• The Company continues to be in a cashflow negative phase as it seeks to accelerate the funding of one or more of its reference projects.	• Successful oversubscribed fundraise of £26.2m (before expenses) in December 2021 to fund projected net running costs. • Ongoing business planning and cash forecasting	
Technology performance and integration	• Integration risk in the biorefineries using a number of significant suppliers/licensors for the first time could jeopardise performance. • Reliance on third-party suppliers and service providers, and the raw materials, parts and components used in our product creates exposure to volatility in the prices and availability of these materials to meet deadlines.	• The Company's technology partners are world-leading in their fields, deploying tested technologies with commercial scale references. • Commercial experience on representative feedstock is a key selection criteria. • Experienced EPC contractor key in mitigating integration and price risk. • Ongoing enhancement of Velocys technology and supply chain.	

Principal risks	Description	Mitigations	Trend
Intellectual property	• Our intellectual property ("IP") portfolio may not prevent competitors from independently developing technology that competes with ours. • Our IP portfolio may not adequately deter unauthorised parties from using the Company's technology. • The Company could unwittingly infringe IP rights of others, which could limit the Company's ability to deliver its technology to customers.	• Invested significantly in patents, trademarks and IP protection for our designs and inventions and vigorously defend all our entrenched rights. • Employ specialist IP advisors who monitor and review competition. • Internal procedures and controls in place to capture and exploit all IP as well as protect, limit and control disclosure to third parties. • Freedom-to-operate searches undertaken to minimise the risk of accidentally infringing the IP rights of others.	
Digital infrastructure and cyber security	• The threats to the security of our digital infrastructure and that of key third parties upon which we rely to operate our business continue to evolve and are increasingly prevalent across businesses worldwide. • COVID-19 pandemic changed ways of working and introduced new styles of phishing campaigns.	• Managed through programme of: – IT security protection tools. – ongoing detection and monitoring of threats. – staff updates on cyber security ensuring increased awareness.	
Climate change	• The risks associated with climate change and the need to align with a carbon-neutral economy, affect the Company's current operations and longer-term strategic goals. • Physical effects of climate change, such as adverse weather events, could cause business disruption through damage to our own facilities and those of our clients and suppliers. • Taking decisions to reduce our own carbon footprint could have financial consequences, such as increasing the price of materials used in production and certain running costs.	• We have assessed the locations of our current facilities to be relatively low risk from natural disasters and weather events, however we have experienced some minor disruption to employees caused by specific adverse weather events and continue to manage these risks as part of our overall health and safety practices. • As the Company is actively engaged in expanding its manufacturing capacity, assessing climate-related risks is a key part of management's decision making to ensure resilient supply chain, production and logistics processes.	

Corporate Governance

Corporate governance report

Introduction

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.

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 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, which 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 06 and 08, 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 being in force, it was not practical for shareholders to attend the 2020 and 2021 AGMs but we expect to meet in person in June 2022.

The Chief Executive Officer and the Chief Financial Officer attend meetings with shareholders and analysts on various occasions during the year, primarily following the Company's Annual Results and Interim Results announcements. Relevant feedback from shareholder discussions is advised to the Board. Other members of the Board, including the Chairman and the 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. Velocys is committed to the principles of the Modern Slavery Act 2015 and the abolition of modern slavery and human trafficking and has adopted a Modern Day Anti-Slavery Statement. Further information on our corporate social responsibility and Key Performance Indicators ("KPIs") can be found on pages 12 to 15.

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 Risk and Sustainability Committee was established in July 2021 and is responsible for reviewing all of the Company's principal risk management policies and for the ongoing development of a Group Risk Register. These responsibilities were formerly covered by the Audit and Risk Committee (now renamed the Audit Committee) which continues to be primarily responsible for internal financial controls and financial risks. Further information on Risk Management can be found on page 16. The Risk Register is reviewed, updated as required and approved by the Board on a quarterly basis.

The principal risks and uncertainties that are considered to have a potentially material impact on the Company's long-term performance and delivery of its strategy are set out pages 16 to 19.

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 three part-time Non-Executive Directors with relevant experience to complement the two full-time Executive Directors and to provide an independent view to the Executive Directors. Details of the Board can be found in the Corporate Governance report on page 24. 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 Committee	Risk & Sustainability Committee	Remuneration Committee	Nomination & Governance Committee
Number of meetings held in 2021	**8**	**6**	**4**	**3**	**4**	**5**
Attendance* by:						
Philip Holland	100%	100%	–	100%	100%	100%
Darran Messem	100%	83%	100%	100%	100%	100%
Ann Markey	100%	100%	100%	100%	–	–
Tom Quigley	100%	100%	100%	100%	100%	–
Andrew Morris	88%	100%	–	–	–	–
Henrik Wareborn	100%	100%	–	–	–	100%
Sandy Shaw	100%	100%	100%	100%	100%	100%

Notes

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

At the time of Philip Holland's appointment as Chair, he met the independence criteria set out in the UK Corporate Governance Code. Thereafter the test of independence is not appropriate in relation to the Chair. The Board regards each of the Non-Executive Directors as being fully independent. In July 2021 two new Non-Executive Directors, Ann Markey and Tom Quigley, were appointed. In September 2021 Sandy Shaw stood down from the Board. The committee memberships during the year were adjusted to account for these changes and membership details can be seen in QCA Principle 9 on page 26.

The roles of the Chair 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 Chair 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.

Darran Messem was appointed Senior Independent Director on 30 September 2021, in place of Sandy Shaw.

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 and Risk Committee and is a member of its Remuneration Committee. Philip also joined the board of KazMunayGas in August 2020, chairing the Nomination and Remuneration Committee and the Strategy and Portfolio Management Committee.

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, fundraising, and commodity finance. Henrik has an MBA from INSEAD and graduated from the Stockholm School of Economics with a BA in finance and economics.

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 and 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 and 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 **Darran Messem**
Role Senior Independent Director
Skills and experience
Darran was appointed to the Board of Velocys in January 2019, as Senior Independent Director on 30 September 2021 and chairs the Risk and Sustainability Committee. Darran has 30 years of commercial experience in energy, transport and sustainable development, with particular focus on renewable energy and low-emission transport. He has served as Managing Director Certification and International Director at the Carbon Trust, Vice President Fuel Development at Shell, and General Manager Market Development at British Airways. At Shell he worked on the removal of lead and sulphur from fuel in the UK, and the development of Shell's global biofuel business, where he worked on a number of biofuel technologies including gasification and Fischer-Tropsch synthesis. He was Shell's nominated Director, and subsequently elected Chair, of Iogen Energy. From 2014 to 2020 he served as Chair of the Low Carbon Vehicle Partnership, (changed in 2021 to the Zero Emission Mobility Partnership), where he remains Director. From July 2019 to April 2022 Darran was a member of the Board of BRE (formerly the Building Research Establishment) and Chair of the Remuneration and Nominations Committee. In January 2022 Darran joined the Board of Shoreham Port Authority as a Non-Executive Director and joint chair of the Audit Committee.

Name Ann Markey
Role Non-Executive Director
Skills and experience
Ann was appointed to the Board of Velocys in July 2021, and chairs the Audit Committee. Ann is a Fellow of Chartered Accountants Ireland, and joins the Board as an experienced business leader and Non-Executive Director. She has extensive experience in the electricity industry, renewables investment and infrastructure development, as well as decarbonisation policy in the renewables/energy efficiency sector. Ann is currently a Non-Executive Director of Foresight Solar Fund Limited (FSFL), the London-listed renewable energy investment company, which has a diverse portfolio of ground-based solar PV and battery storage assets in the UK, Spain and Australia. She is also a Non-Executive Director of the Sustainable Energy Authority of Ireland (SEAI), the state body responsible for the delivery of a number of key decarbonisation objectives for Ireland. In addition, Ann is a Non-Executive member of the Audit and Risk Committee of the Health Service Executive (HSE), Ireland's national public health service provider and, until June 2021, was a Non-Executive Director of the Digital Hub Development Agency (DHDA), Ireland's largest cluster of digital companies. Ann was previously a Senior Executive with ESB, a leading Irish utility, and with Greencoat Capital, a leading renewable energy investment manager.

Name Tom Quigley
Role Non-Executive Director
Skills and experience
Tom was appointed to the Board of Velocys in July 2021 and chairs the Remuneration Committee. Tom is an ACA qualified accountant and joins Velocys as an experienced Non-Executive Director within the waste-to-clean-energy and financial investment sectors. Tom is currently a Non-Executive Director of EQTEC plc, the AIM-listed waste gasification technology company. He also holds Non-Executive roles with Skipton International Ltd, an offshore savings bank and mortgage lender and Barchester Healthcare. Furthermore, Tom is currently Director and Chair of the Audit Committee of The States of Jersey Development Company and an Advisory Board Member of UBS Channel Islands. Tom has had a successful career in the City of London in corporate finance as Managing Director for Close Brothers and ING Barings. Subsequently Tom held positions at Terra Firma Capital Partners, WP Carey and ETF Securities bringing with him a wealth of finance experience and City contacts.

Internal advisory responsibilities

The Company Secretary, 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 2021, 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 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 four Board sub-committees, and to comment on procedures or any relevant matters. Average scores for each question are measured against relevant scores in the previous two years to help identify trends, and are also assessed in absolute terms. The scoring and any comments are assimilated into a report on an unattributed basis, and the results of the evaluation are considered by the Board and each sub-committee in open session.

Where appropriate, actions arising from such reviews are implemented. Previous evaluations have resulted in improvements to timing and quality of management information; the provision to the Board of more detailed information on individual projects; improvements to the structure and workings of committees; the placing of a greater emphasis on strategic initiatives/business risk and an increased emphasis on Director training. Following the 2021 Board evaluation, the Board has agreed to make further detailed improvements to assist the smooth functioning of Board and Committee meetings. In addition, greater focus will be placed on risk management; on developing/monitoring Company strategy and annual performance objectives; and developing an investor engagement plan.

An annual performance evaluation of the Chair 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 and Governance Committee as to whether individual directors are recommended for re-election.

Corporate governance report (continued)

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

Audit Committee

The members of the Audit Committee are Ann Markey** (Chair), Darran Messem (Senior Independent Director) and Tom Quigley** (Non-Executive Director). Sandy Shaw was also a member until she retired on 30 September 2021. Ann Markey was appointed Committee Chair on 30 September 2021 in place of Darran Messem.

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

Under its Terms of Reference, which can be found on the Company's website, the Audit Committee reviews inter alia the Company's audit planning, financial 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 the executive directors present.

Further information is set out in the Audit Committee report, which can be found on page 28.

Notes
** Appointed as Committee member 26 July 2021.

Risk and Sustainability Committee

The former Audit and Risk Committee was renamed the Audit Committee on 26 July 2021, on which date the Company established a Risk and Sustainability Committee. The members of the Risk and Sustainability Committee are Darran Messem (Chair), Philip Holland (Company Chair), Ann Markey (Non-Executive Director) and Tom Quigley (Non-Executive Director). Meetings are held not less than four times a year.

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

Risks will be specific to the Company's circumstances as identified from time to time and include but are not limited to the following:

Health & Safety
Geo and local political and economic risk
Growth
Strategy
Technology
Operational risk
Business Continuity
Environmental and climate change
Legal & Statutory
Social
Human Resources

Notes
The Audit Committee continues to be primarily responsible for monitoring financial risks.

Remuneration Committee

The members of the Remuneration Committee are currently Tom Quigley** (Chair), Philip Holland** (Company Chairman) and Darran Messem (Senior Independent Director). Tom Quigley was appointed Committee Chair on 30 September 2021 in place of Sandy Shaw who retired as a member and Chair on that date. Meetings of the committee take place not less than three times a year.

Notes

** Appointed as Committee member 26 July 2021.

Due regard is paid to the Investment Association Principles of Remuneration. At the 2022 AGM, a resolution will be proposed seeking shareholder approval of the Directors' Remuneration Report set out on pages 31 to 35.

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

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

Nomination and Governance Committee

The members of the Nomination and Governance Committee are Philip Holland (Chair), Darran Messem (Senior Independent Director) and Henrik Wareborn** (Chief Executive Officer). Sandy Shaw was a member of the committee until she stood down on 30 September 2021. The committee met five times during 2021. 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.

Notes

** Appointed as Committee member 26 July 2021.

Further information is set out in the Nomination and Governance Committee report, which can be found on page 30.

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 were made in respect of the 2020 and 2021 Annual General Meeting in light of the COVID-19 health and safety requirements. Details of arrangements for the 2022 Annual General Meeting are set out in the Company's Notice of 2022 AGM which is being published at the same time as this Annual Report and Accounts and are available on the Company's website.

Further information is shown under QCA Principle 2.

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

Audit Committee report

Dear Shareholder, On behalf of the Board, I am pleased to present the Audit Committee report for the year ended 31 December 2021.

Committee members

The Committee has the competence relevant to the sector in which Velocys operates and following the recent Board appointments has at least one member with recent and relevant financial experience (see Board member profiles on pages 24 and 25). All committee members are independent. The members of the Audit Committee are currently Ann Markey (Chair), Darran Messem (Senior Independent Director) and Tom Quigley (Non-Executive Director).

Roles and responsibilities

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

Committee meetings

Meetings are held not less than four times a year and are based on the work programme set out in the Audit Committee Guide published by the QCA. Meetings are attended by committee members, the Chair, Chief Executive Officer and Chief Financial Officer. The external Auditors are invited as appropriate. The Committee normally meets with the external Auditors at least once a year without the executive directors being present. All committee members attended each of the four meetings held during the year ended 31 December 2021.

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 Committee has considered the integrity of the Company's 2021 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.

Key reporting considerations

The key reporting matters and judgements considered by the Committee during the year included:

- Going concern – see page 11, for consideration from the Board regarding going concern.
- Altalto land option and purchase of Rula Developments (Immingham) Ltd - see note 4.
- Revenue recognition - see note 6.
- Valuation of assets (consolidated company) and investment in subsidiaries (Velocys plc).

Audit review

The Audit Committee monitors the Company'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 2021 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. The Audit Committee annually reviews the performance of the auditors and is satisfied with PwC's performance and that they have observed the requirements on audit partner rotation. The Committee obtained confirmation from PricewaterhouseCoopers LLP that their independence and ethics policies complied with FRC requirements, and that they remain independent and maintain internal safeguards to ensure their objectivity. No contractual obligations exist that restrict the Company's choice of external auditors and the Committee is satisfied that the external Auditors remain independent. This matter is kept under continuous review by the Committee. The Board, on recommendation by the Committee, will seek shareholder approval for the re-appointment of PwC as auditor for 2022.

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 (completed in 2020) can be found in note 11 in the consolidated financial statements.

Internal audit

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

Approved on behalf of the Audit Committee by:

Ann Markey

Ann Markey
Non-Executive Director and Chair of the Audit Committee
16 May 2022

Risk and Sustainability Committee report

Dear Shareholder, On behalf of the Board, I am pleased to present the Risk and Sustainability Committee report for the year ended 31 December 2021.

Committee members

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

Roles and responsibilities

The Risk and Sustainability Committee was established in July 2021 and is responsible for reviewing all of the Company's principal risk management policies and for the ongoing development of a Group Risk Register. These responsibilities were formerly covered by the Audit and Risk Committee (now renamed the Audit Committee) which continues to be primarily responsible for monitoring internal financial controls and financial risks. Further information on Risk Management can be found on page 16. The Risk Register is reviewed and updated as required and approved by the Board on a quarterly basis.

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

Risks are specific to the Company's circumstances as identified from time to time and include but are not limited to the following:

Health & Safety
Geo and local political and economic risk
Growth
Strategy
Technology
Operational risk
Business Continuity
Environmental and climate change
Legal & Statutory
Social
Human Resources

Committee meetings

Meetings are attended by committee members, the Chief Executive Officer and Chief Financial Officer.
All committee members attended each of the three meetings held.

Approved on behalf of the Risk and Sustainability Committee by:

Darran Messem
Senior Independent Director and Chair of the Risk and Sustainability Committee
16 May 2022

Nomination and Governance Committee report

Dear Shareholder, On behalf of the Board, I am pleased to present the Nomination and Governance Committee report for the year ended 31 December 2021.

Committee members

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

Committee meetings

Meetings are held not less than twice a year and are attended by committee members. The Chief Financial Officer may also be invited as appropriate. All committee members attended the five meetings held during the year ended 31 December 2021.

Roles and responsibilities

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

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

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

- Sandy Shaw stood down as a Non-Executive Director at the conclusion of her third consecutive three year term of office on 30 September 2021. The Committee 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 Comittee. Following a careful selection process, a specialist recruitment agency was engaged during the year to assist with this process, and the committee decided to appoint two new independent Non-Executive Directors Ann Markey and Tom Quigley to the Board in July 2021.
- As announced on 10 February 2022, Andrew Morris, CFO, advised the Board of his intention to leave Velocys in order to pursue other career opportunities. The intention is for Andrew to step down as CFO and Board Director during Q2 2022. Since that date, and following internal discussions and input from the Non-executive Directors, the Nomination Committee has finalised the role description for a new CFO, and a search agency has been appointed to identify candidates for the role.

Approved on behalf of the Nomination and Governance Committee by:

Philip Holland
Chair of the Board of Directors and Chair of the Nomination and Governance Committee
16 May 2022

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. Consequently, certain disclosures contained in these regulations are not included below. The content of this report is unaudited unless stated.

Committee members

The members of the Remuneration Committee are currently Tom Quigley (Committee Chair), Philip Holland (Company Chair) and Darran Messem (Non-Executive Director and Senior Independent Director). Meetings are held not less than three times a year.

The Committee's constitution and operation is compliant with the provisions of the QCA Code, published by the Quoted Companies Alliance, which sets out a minimum best practice standard for small and mid-size quoted companies, particularly AIM companies. In determining remuneration policy for Executive Directors, the Committee takes into consideration both the QCA Code and the Principles of Remuneration published by The Investment Association (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 and external advisors are engaged as necessary. No external advisors were engaged during the year ended 31 December 2021. 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 2021, was 75%. The Remuneration Committee sets performance targets for bonus awards at the beginning of each year. Awards are determined by both the performance of the individual and the Company as a whole at the end of each year. The performance targets for the Company comprise measures of financial, technical and business development goals. Where performance is judged against measurable targets, the Remuneration Committee retains discretion to adjust the outturn to ensure it is fair, reasonable and related to the Company's performance and shareholders' experience. Performance for the previous calendar year is normally assessed in the first quarter. In March 2022 a discretionary bonus in respect of 2021 performance was awarded. However, during the 2021 year the Executives proposed that no bonus in relation to the 2020 performance be paid due to the exceptional global circumstances of 2020 continuing into 2021.

Directors' remuneration report (continued)

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 awards for 2020 were made in February 2021 and the awards for 2021 were made in January 2022 and are shown in the post financial position events on page 80.

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.

All Options were granted subject to the Rules of the Velocys 2021 Share Option Scheme (see below), 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

2021 Grants

The Executive Directors were eligible for annual 2021 awards under the Scheme, however these awards were not granted until January 2022 and therefore have not been shown here but instead information on the 2021 LTIP has been shown in the post financial position events on page 80. They were issued under the 2021 Scheme Rules, which were approved by shareholders at the 2020 AGM in June 2021 and are in line with the amounts given for the 2020 annual awards.

2020 Grants

The Executive Directors were eligible for annual 2020 awards, which were granted in February 2021. 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 7.86 pence. Vesting requirements were based 50/50 as to the elapsing of time and meeting a performance target (market capitalisation growth); this was considered appropriate under the current circumstances of the Company. The number of Options awarded to each Executive Director and the vesting conditions are set out in the table on page 34.

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 February 2021, at the same 7.86 pence strike price and on the same terms. Awards for the 2021 LTIP to eligible senior management were made in January 2022 and consequently information has been shown in the post financial position events on page 80.

Headroom calculations

The total of awards set out above represents a potential maximum dilution of current shareholders' interests of 5.7% taking into account historic awards outstanding (4.8%) and options granted in 2022 (0.9%). The Remuneration Committee believes the Scheme is reasonable and necessary 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. The Velocys 2021 Share Option Scheme currently sets out a maximum dilution limit for the grant of options of 25% of the Company's issued share capital. This limit was originally approved by shareholders on 23 February 2015 to enable the Company to make awards which were considered appropriate to its circumstances at that time, but which are considered to be in excess of the norms under currently accepted Corporate Governance best practice. Accordingly, the Board will propose an Ordinary Resolution at the 2022 Annual General Meeting to reduce the maximum dilution limit from 25% to 10% of the issued share capital from time to time.

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 Company contributions are 3% of pensionable pay with an additional contribution of between 1% to 4% to match the employee's own contribution up to the maximum allowable under US pensions law.

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

Service contracts

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

Remuneration policy for non-executive directors

The remuneration of Non-Executive Directors is determined by the Executive Directors in consultation with the 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 2021 and 2020 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.

	2021 £	2020 £
Aggregate fees paid to Chairman and Non-Executive Directors	202,947	172,000

Directors' remuneration (audited)

Aggregate emoluments excluding pension contributions made by the Company for current and former directors in 2021 totalled £679,930 (2020: £1,041,204), and Company pension contributions were £64,625 (2020: £47,500).

The directors who held office in the year ending 31 December 2021 received the following remuneration in relation to the year ended 31 December 2021. No bonuses were paid in 2021, however bonuses were paid in March 2022 in relation to 2021 performance and the bonuses paid in 2020 related to their performance in respect of 2019.

	2021					2020				
Name of director	Salary & fees £	Other benefits[1] £	Bonus £	Pension £	Total £	Salary & fees £	Other benefits £	Bonus £	Pension £	Total £
Executive										
Henrik Wareborn	231,000	11,743	–	44,000	286,743	250,000	19,969	187,500	25,000	482,469
Andrew Morris	225,000	9,240	–	20,625	254,865	225,000	17,985	168,750	22,500	434,235
Non-executive										
Philip Holland	72,000	–	–	–	72,000	72,000	–	–	–	72,000
Sandy Shaw[2]	37,500	–	–	–	37,500	50,000	–	–	–	50,000
Darran Messem	50,000	–	–	–	50,000	50,000	–	–	–	50,000
Ann Markey [4]	21,792	–	–	–	21,792	–	–	–	–	–
Tom Quigley[4]	21,655	–	–	–	21,655	–	–	–	–	–
Aggregate emoluments and pension contributions	658,947	20,983	–	64,625	744,555	647,000	37,954	356,250	47,500	1,088,704

Notes

(1) Other benefits include medical cover for Executive Directors and their dependants.
(2) Sandy Shaw stood down on 30 September 2021.
(3) Ann Markey was appointed to the Board on 26 July 2021.
(4) Tom Quigley was appointed to the Board on 26 July 2021.

Directors' remuneration report (continued)

Directors' share options (audited)

Details of all directors' shareholdings are disclosed on page 38 in the Directors' report.

Details of options held by the directors at 31 December 2021 were as follows.

Name of director	At 1 January 2021	Granted	Exercised	Lapsed	At 31 December 2021	Exercise price (£)	Earliest date of exercise	Date of expiry	Exercisable at 31 December 2021
Henrik Wareborn									
Commencement	2,000,000	–	–	–	2,000,000	10.00p	13/12/19	12/12/29	2,000,000
Performance	2,000,000	–	–	–	2,000,000	15.00p	31/12/22	12/12/29	–
LTIP 2019 – performance	3,125,000	–	–	–	3,125,000	3.00p	13/12/22	12/12/29	–
LTIP 2019 – time	3,125,000	–	–	–	3,125,000	3.00p	13/12/22	12/12/29	–
LTIP 2020 - performance	–	1,632,252	–	–	1,632,252	7.86p	09/02/24	08/02/31	–
LTIP 2020 – time	–	1,632,252	–	–	1,632,252	7.86p	09/02/24	08/02/31	–
Subtotal	10,250,000	3,264,504	–	–	13,514,504				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	31/12/22	12/12/29	–
LTIP 2019 – performance	2,812,500	–	–	–	2,812,500	3.00p	13/12/22	12/12/29	–
LTIP 2019 – time	2,812,500	–	–	–	2,812,500	3.00p	13/12/22	12/12/29	–
LTIP 2020 – time	–	1,469,026	–	–	1,469,026	7.86p	09/02/24	08/02/31	–
LTIP 2020 – performance	–	1,469,026	–	–	1,469,026	7.86p	09/02/24	08/02/31	–
Subtotal	9,625,000	2,938,052	–	–	12,563,052	–	–	–	2,000,000
Total	19,875,000	6,205,556	–	–	26,077,556	–	–	–	4,000,000

No options were exercised by directors during 2021 or 2020. Of the options that are exercisable at 31 December 2021 none had any intrinsic value at that date. The total charge for share-based payments during the year in respect of directors was £124,000 (2020: £28,000).

Option grants 2021

Awards were made in January 2022 under the Scheme in respect of 2021 annual awards entitlements. See page 36 of the Directors' report for further information.

Option grants 2020

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, Henrik Wareborn and Andrew Morris received a total of 3,264,503 and 2,938,052 options respectively, allocated equally between time-based and performance-based options. The exercise price was set at the time of grant at 7.86 pence being the highest of the share price at the last fundraise, the share price on the date of grant and the weighted average share price for the month prior to grant. The total number of options granted represents a dilution of shareholders' interests at the time of 1.37%.

The Velocys 2021 Share Option Scheme rules

The Velocys 2021 Share Option Scheme rules were approved by the shareholders of Velocys plc at the Company's Annual General Meeting on 23 June 2021. The rules were in line with the previous scheme rules (the Velocys 2012 Share Option Scheme rules) 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 amended rules were therefore renewed for another ten-year period.

Share price

The market price of the parent company's shares as at 31 December 2021 was 7.40p (2020: 10.15p) and the range during the year was 4.10p to 13.50p (2020: 1.68p to 14.65p). 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:

T.K Quigley

Tom Quigley
Chair of the Remuneration Committee
16 May 2022

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2021

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 6 to 9.

Dividends

The Directors do not recommend any dividend for the year ended 31 December 2021 (2020: nil).

Research and development

The Company's research and development ("R&D") activities relate primarily to the development of 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 2021 (2020: nil).

Post financial position events

The following events took place after 31 December 2021:

Grant of share options to executives and employees

In January 2022, the Company granted options totalling 11,378,282 to Executives and senior management in respect of 2021 performance and options totalling 1,500,000 to a new employee, who joined the Company during 2021. The Executive Directors, Henrik Wareborn and Andrew Morris, received a total of 2,343,750 and 2,109,376 options respectively, allocated equally between time-based and performance-based options. The exercise price was set at the time of grant at 8.00 pence being the highest of the share price at the last fundraise, the share price on the date of grant and the weighted average share price for the month prior to grant. The total number of options granted represents a dilution of current shareholders' interests of 0.92%. There is no impact on the financial results for the year ended 31 December 2021.

Directorate change

Andrew Morris, CFO, has advised the Board of his intention to leave Velocys in order to pursue other career opportunities. The intention is for Andrew to step down as CFO and Board Director on 30 June 2022. The recruitment process of the next CFO is underway.

Leadership update

Andy Bensley has joined Velocys as the Global Head of Business Development and Technology Delivery. He comes with 35 years of international experience in senior corporate, functional leadership and project delivery roles in both major IOC's and EPC contractor organisations, including positions at Bechtel, Shell, SK E&C and Eni.

Heinz Robota, VP Technology, will be retiring from his role after 10 years at Velocys and will be replaced by Dawid Duvenhage who joined the Company in November 2021 with the responsibility for Velocys' catalysis division. Heinz has led the catalysis efforts from R&D into commercial demonstrated status of Velocys' super active FT catalyst. Following an initial career as a chemist and chief scientist, Dawid has over 30 years' experience in catalyst development, scale-up and commercialisation. Heinz has agreed to continue to support Velocys as a member of our Senior Scientific Advisory Board.

Sale and purchase option over Altalto Project site with Foresight Group LLP

In March 2022 Altalto Immingham Ltd ("Altalto") a wholly owned subsidiary of Velocys plc sold its 100% interest in Rula Developments (Immingham) Ltd ("RDIL") for £9.75 million, with a call option for Altalto to re-purchase RDIL within three years paying up to £11.75 million plus a quarterly option fee of £100,000 during the option period. This allowed Altalto to settle the deferred consideration payable of £7.25 million from the transaction that took place in December 2021, when Altalto took up its option to purchase RDIL, the property development company which owns the project site in Immingham, North East Lincolnshire, UK. Additionally, and subject to the exercise of the re-purchase option, Altalto has agreed to grant Foresight a right of first refusal to invest up to £100 million into the project, alongside British Airways and other future investors, once the full funding is required. The financial effects of this transaction have not been recognised as of 31 December 2021.

New technical centre in Ohio

In March 2022 the Company secured a 15 year lease for a modern and sustainable facility of approximately 52,500 square feet of new building to be built near Columbus, Ohio. This will consolidate all our catalysis services, microchannel reactor core assembly and technology licensing under one roof. In line with our recent Placing Circular, this will involve a capital investment of up to £1.5 million in the building enhancements to fit our specific needs and £4.8 million in reactor core assembly automation enabling steady output of at least 12 reactors per year. It is expected that we will start moving into the building in Q4 2022 and Q1 2023.

Extension of agreements with British Airways

In March 2022, the Company agreed with British Airways ("BA") to extend both the UK Altalto project Joint Development Agreement and the Option Agreement for BA to acquire 50% of Altalto Ltd by one year to 31 March 2023. The original option was signed on 12 May 2020 and initially extended on 30 March 2021.

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) – resigned as director 30 September 2021.
- Darran Messem (Non-Executive Director).
- Ann Markey (Non-Executive Director) – appointed as director 26 July 2021.
- Tom Quigley (Non-Executive Director) – appointed as director 26 July 2021.

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 stood 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 and Governance Committee report on page 30.

The S172(1) statement of directors' duties

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

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

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

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

The Company's governance and decision-making processes, which the Board considers are appropriate to the size and complexity of the business, are set out in the Corporate governance report on pages 22 to 27. 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:

Directors' report (continued)

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 16 to 19 for our Risks and mitigation.

Engagement with our employees

During 2020 and 2021, 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 set up a Covid Response Team ("CRT") in March 2020 which continued its work throughout 2021, and is chaired by our Director of HR and Administration, 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. 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. An initial principal decision was made in consultation with the Board in March 2020 to implement 100% work from home procedures for all employees. Since then we have changed this advice in accordance with the advice given by local governments with some employees returning to duties from the office or our technical centre in Columbus, Ohio.

The Executive Directors together with the CRT have held regular 'town hall' 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. We have had limited face-to-face contact with our staff during the year due to the local restrictions brought on by the pandemic, however we engage with our employees on a personal basis by completing a performance evaluation with them once 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 remote working, the Company has taken to regularly using internet platforms for our meetings. A successful example of this has been our fundraising completed in December 2021 where some but not all meetings with potential investors and our current institutional investors were conducted via the internet. More details of the fundraise can be found in the Financial Review on pages 10 to 11.

Other relationships, including those with our engineering partners, our customers and our business development activities have led, for example, to the appointment of Koch Project Solutions as potential EPC contractor to the Bayou Fuels, Mississippi project and the signing of offtake agreements with Southwest Airlines and IAG (British Airways' parent company) for 100% of the Sustainable Aviation Fuel and associated environmental credits from the Bayou Fuels project. These were considered as principal decisions taken by the Board in 2021.

While 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, EU 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 are developing an engineered, integrated technology package which will allow plants to be built with a significant beneficial impact on the carbon emissions of this sector. Velocys is committed to acting and developing sustainably and as part of that commitment we have appointed our first Sustainability Officer and developed our sustainability statement. 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 review on pages 12 to 13.

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 Anti-Modern Slavery Policy, which sets out the rules by which the officers of the Company have to act in relationships with other organisations and the personnel employed by the Company.

Our engagement with shareholders

We treat all shareholders in the Company with equal respect and are grateful to them for supporting the Board during the December 2021 fundraise, which will enable the Company to remain focused on delivering its renewable fuels technology and pursuing exciting opportunities in this developing market. Given that we raise funds from the public market on a regular basis, the Executives on the Board regularly meet with the larger shareholders of the Company. There are also group meetings arranged by our brokers of smaller shareholders as well as the use of one of the specialist internet-based platforms to keep all of them up to date with the activities of the Company. We have developed regular communications to our shareholders through the media including our website, Twitter and LinkedIn.

A principal decision was made by the Board to proceed with the fundraise in December 2021 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 2021 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 2021	31 December 2020
Philip Holland	1,328,118	1,203,118
Darran Messem	558,333	433,333
Ann Markey	125,000	-
Tom Quigley	125,000	-
Andrew Morris	1,172,817	847,817
Henrik Wareborn	2,318,445	2,118,445

The following Board members subscribed for new Ordinary shares as part of the December 2021 fundraise (as recorded in the Register of Directors' Interests and including those of the spouse or civil partner and children under 18): Philip Holland (125,000), Darran Messem (125,000), Ann Markey (125,000), Tom Quigley (125,000) and Andrew Morris (125,000).

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

Directors' qualifying third-party indemnity provision

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

Financial instruments

The Company's financial instruments are detailed in note 24 of the consolidated financial statements.

Financial risk management

Financial risks and risk management are detailed in the Strategic Report on pages 16 to 19, and in note 24 of the consolidated financial statements.

Directors' report (continued)

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 2022.

	Number of shares held	% of issued share capital
Lansdowne Partners	255,156,632	18.30%
Hargreaves Lansdown Asset Management	150,556,744	10.80%
Norma Investments Ltd	82,442,443	5.91%
Interactive Investor Trading	82,054,201	5.88%
Ruffer LLP	69,570,425	4.99%
Ervington Investments Ltd	55,413,333	3.97%
Amati Global Investors	53,987,142	3.87%
Killik Asset Management	46,538,325	3.34%

Going concern and future funding

The financial statements have been prepared on the going concern basis, which assumes that the Company and Velocys plc will have sufficient funds available to enable them to trade for not less than twelve months from the date of approval of these financial statements.

During December 2021 the Company raised £26.2m (before expenses) by way of a Placing and Open Offer. The directors consider that this is sufficient funding for the Company to continue as a going concern for a period not less than twelve months from the date of this report. The directors do not anticipate that any further funding to the Company will come from further placing of the parent company shares during this period.

For additional information on the going concern of the Company please refer to the Financial Review and note 2 to the financial statements.

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 2022 Annual General Meeting are set out in the Company's notice of 2022 AGM which is being published at the same time as this Annual Report and are available on the Company's website.

Corporate governance

The Company's statement on corporate governance is available on pages 22 to 27.
Approved by the Board and signed on its behalf by:

Henrik Wareborn

Henrik Wareborn
Chief Executive Officer
16 May 2022

Statement of directors' responsibilities

In respect of the financial statements

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

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

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

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

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

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

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

Directors' confirmations

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

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

On behalf of the Board

Henrik Wareborn
Chief Executive Officer
16 May 2022

Financial Statements

Independent auditors' report to the members of Velocys plc

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Company's and Velocys plc's affairs as at 31 December 2021 and of the Company's consolidated loss and the Company's consolidated and Velocys plc's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 2021; 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.

Our audit approach

Overview

Audit scope

- Overall Company materiality: £474,500 (2020: £497,000), based on 5% of loss before tax.
- Overall Velocys plc materiality: £447,000 (2020: £126,000) based on 1% of total assets.
- We identified two financially significant components which were subject to full scope audits.
- We performed a full scope audit over the significant components Velocys plc and Velocys Inc as well as Velocys Technologies Limited for statutory reporting purposes.
- We performed specified audit procedures at two further components to address specific risk characteristics or to provide sufficient overall coverage of particular financial statement line items.
- All audit work was performed by the group engagement team.
- Components where we performed audit procedures accounted for 96% of Company loss before tax and 99% of Velocys plc total assets.

Key audit matters

- Going concern (Company and Velocys plc)
- Valuation of assets for the Company and investment in subsidiaries for Velocys plc (Company and Velocys plc)

Materiality

- Overall Company materiality: £474,500 (2020: £497,000) based on 5% of loss before tax before tax.
- Overall Velocys plc materiality: £447,000 (2020: £126,000) based on 1% of total assets.
- Performance materiality: £356,000 (2020: £323,000) (Company) and £335,000 (2020: £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.

Key audit matters

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

This is not a complete list of all risks identified by our audit.

Going concern is a new key audit matter this year. We note, however, that there was a material uncertainty related to going concern in the prior year audit opinion so this remains an unchanged area of focus. COVID-19, which was a key audit matter last year, is no longer included because of the relative level of assessed audit risk associated with this matter having reduced in the current year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Going concern (Company and Velocys plc)	
The Directors have formed a judgement that there is reasonable expectation that the Company and Velocys plc have adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements. Therefore, the Directors have adopted the going concern basis in preparing these financial statements. Refer to note 2 for details. In making an assessment as to whether the going concern principle should be adopted , the Directors have considered the period to 31 December 2023 (the 'assessment period') and have used the Board approved budget for 2022 and considered a base case scenario and a severe but plausible downside scenario covering for the aforesaid period. The Directors also considered the key risks which may impact the assumptions used in the forecast. The Directors have concluded based on their assessment that there are no material uncertainties around the Company's and Velocys plc's ability to continue as a going concern. Given the loss before tax incurred by the Company and Velocys plc, the cash outflows incurred by the Company and the material uncertainty related to going concern in the prior year, we have considered this to be a key audit matter.	For our audit response and conclusions in respect of going concern, see the 'Conclusions relating to going concern' section below.
Valuation of assets for the Company and investment in subsidiaries for Velocys plc (Company and Velocys plc)	
The carrying value of the Company's intangible assets is £1.1m (2020: £0.7m) and net assets are £29.7m (2020: £13.1m). The carrying value of Velocys plc's investments in subsidiaries is £9.2m (2020: £9.1m). The Company's intangible assets and Velocys plc's investments in subsidiaries are subject to impairment testing at least annually or more frequently if events or changes in circumstances indicate the carrying value may not be recoverable. In assessing whether there was any indication of impairment, management considered any changes in operations and compared the carrying amount of the Company's and Velocys plc's net assets to Velocys plc's market capitalisation. For the assessment of the recoverable amount of the Company's and Velocys plc's assets, the recoverable amount was determined for the cash generating unit ('CGU') to which these assets belong. The Company and Velocys plc have one CGU. The recoverable amount of the CGU was determined based on its fair value less costs of disposal ('fair value'), using Velocys plc's market capitalisation. IAS 36 also requires that the Company assess at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. The market capitalisation of the Company at 31 December 2021 was approximately £100m indicating no impairment. Management also considered the trading performance in 2021, with no significant new revenue contracts, did not indicate the previous impairment loss should be reversed until further progress is achieved on the projects and greater revenue generation. Furthermore, the market capitalisation remains volatile both during the year and after the year end driven mainly by the fluctuation in share price. During the year the share price reported a low of 4.1p as at 16 July 2021 and a high of 13.5p on 11 November 2021 and at year end the share price was 7.4p. Post year-end the share price decreased to a low of 4.85p in March 2022. Whilst, the market capitalisation has fluctuated, it has remained above the net assets of the Company and Velocys plc. Our audit focused on the risk that the carrying value of the Company's assets and Velocys plc's investments in subsidiaries could be overstated and further impairments could be necessary as well as considering if there were any indicators that the previous impairment may be reversed. Please refer to note 17 in the Company's financial statements and note 9 in Velocys plc's financial statements.	We assessed the level at which impairment testing was performed. Based on our knowledge of the business, including the use of assets and internal reporting, we agreed with management's judgement that, for the assessment of the recoverable amount of the Company's assets, the Company has one CGU. We evaluated management's impairment indicators and their approach to calculating the CGU's recoverable amount, based on its fair value, using Velocys plc's market capitalisation. Management's assessment considered the market capitalisation at 31 December 2021 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)

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, considering the structure of the Company and Velocys plc, the accounting processes and controls, and the industry in which they operate.

The Company's accounting process is structured around the UK and US finance functions with the core reporting function based out of the UK office. As part of our overall scoping exercise, we determined the nature of work that needed to be performed to get sufficient coverage across the entire Company. For each component we determined whether we required an audit of their complete financial information (full scope) or whether specified audit procedures addressing specific risk characteristics or financial statement line items would be sufficient. We required a full scope audit for three components, of which two were individually financially significant (Velocys Inc. - (US) and Velocys plc (company only - UK)).

We performed a full scope audit on an additional component (Velocys Technologies Limited (UK)) selected based on specific risk. We determined that specified audit procedures were required at a further two components (Altalto Immingham Limited (UK) and Velocys Projects Limited (UK)) to address specific risk characteristics or to provide sufficient overall Company coverage of financial statement line items. We performed analytical review procedures on the remaining population of components contributing insignificant underlying profit before tax individually and in aggregate. These procedures include an analysis of year-on-year movements, at a level of disaggregation to enable a focus on higher risk balances and unusual movements. This gave us the evidence we needed for our opinion on the financial statements as a whole. Components where we performed audit procedures accounted for 96% of the Company's consolidated loss before tax and 99% of Velocys plc 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	£474,500 (2020: £497,000).	£447,000 (2020: £126,000).
How we determined it	5% of loss before tax	1% of total assets
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, loss before tax, is the primary measure used by the members in assessing the financial performance of the Company.	We believe that total assets 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 £44,000 and £446,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Company materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 65%) of overall materiality, amounting to £356,000 (2020: £323,000) for the Company financial statements and £335,000 (2020: £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 £23,730 (Company audit) (2020: £24,850) and £22,350 (Velocys plc audit) (2020: £7,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern
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:

- Assessing the Company's and Velocys plc's cash flow forecast for the 18 month period to 31 December 2023 and agreeing that these are based on Board approved budgets.
- Testing the mathematical accuracy of the cash flow forecast. We did not identify any material exceptions in these tests.
- Comparing the planned cash outflow to historical actual results. We found management's assumptions to be supportable.
- Reviewing management's key assumptions and considering whether there were additional risks that needed to be reflected in the forecasts. We considered management's assumptions to be reasonable.
- Performing sensitivities including considering a further severe but plausible downside scenario of the cash flow forecasts. This assumed no uncontracted cash inflows from customers. Based on this downside scenario we note that the Company and Velocys plc have sufficient funds for at least 12 months from the date of approval of the financial statements.
- Additionally, considering the adequacy of the disclosure in note 2 to the financial statements. We found it to be sufficient to inform members about the directors' conclusions on the appropriateness of using the going concern basis.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's and Velocys plc's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's and Velocys plc's ability to continue as a going concern.

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

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 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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)

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

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

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

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Gareth Murfitt

Gareth Murfitt (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading.
16 May 2022

Consolidated income statement

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Revenue	6	8,283	178
Cost of sales		(4,881)	(101)
Gross profit		3,402	77
Administrative expenses	10	(13,331)	(9,238)
Other income	9	956	400
Operating loss		(8,973)	(8,761)
Finance income	7	34	6
Finance costs	8	(551)	(850)
Net finance costs		(517)	(844)
Loss before income tax		(9,490)	(9,605)
Income tax credit	13	1,049	810
Loss for the financial year attributable to the owners of Velocys plc		(8,441)	(8,795)
Loss per share attributable to the owners of Velocys plc			
Basic and diluted loss per share (pence)	16	(0.78)	(1.05)

Notes

The notes on pages 54 to 80 are part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2021

	2021 £'000	2020 £'000
Loss for the year	(8,441)	(8,795)
Items that may be reclassified to the income statement in subsequent periods;		
Foreign currency translation differences	113	(251)
Total comprehensive expense for the year attributable to the owners of Velocys plc	(8,328)	(9,046)

Notes

The notes on pages 54 to 80 are part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2021

	Note	2021 £'000	2020 £'000
Assets			
Non-current assets			
Intangible assets	17	1,086	740
Property, plant and equipment	18	11,006	1,479
Right-of-use asset	19	500	653
		12,592	2,872
Current assets			
Inventories	21	767	970
Trade and other receivables	20	1,274	6,182
Current income tax asset		1,100	810
Cash and cash equivalents	22	25,506	13,051
		28,647	21,013
Total assets		41,239	23,885
Liabilities			
Current liabilities			
Trade and other payables	23	(2,969)	(932)
Lease liability	19	(397)	(470)
Deferred consideration	4	(7,250)	–
Borrowings	27	–	(152)
Other liabilities	28	(431)	(474)
Deferred revenue	29	(326)	(7,774)
		(11,373)	(9,802)
Non-current liabilities			
Lease liability	19	(189)	(270)
Borrowings	27	–	(371)
Deferred revenue	29	–	(382)
		(189)	(1,023)
Total liabilities		(11,562)	(10,825)
Net assets		29,677	13,060
Capital and reserves attributable to owners of Velocys plc			
Called up share capital	25	13,936	10,642
Share premium account	25	221,059	199,701
Merger reserve		369	369
Share-based payments reserve		2,638	16,345
Foreign exchange reserve		3,151	3,038
Accumulated losses		(211,476)	(217,035)
Total equity		29,677	13,060

Notes

The notes on pages 54 to 80 are part of these consolidated financial statements.
The financial statements on pages 49 to 80 were approved by the Board of directors and authorised for issue on 16 May 2022. They were signed on its behalf by:

Henrik Wareborn

Henrik Wareborn
Chief Executive Officer

16 May 2022

Company number 05712187

Consolidated statement of changes in equity

For the year ended 31 December 2021

	Note	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Share-based payment reserve £'000	Foreign exchange reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 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
Net 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
Balance at 1 January 2021		10,642	199,701	369	16,345	3,038	(217,035)	13,060
Loss for the year		–	–	–	–	–	(8,441)	(8,441)
Other comprehensive expense								
Foreign currency translation differences		–	–	–	–	113	–	113
Total comprehensive expense		–	–	–	–	113	(8,441)	(8,328)
Transactions with owners								
Share-based payments – value of employee services	15	–	–	–	293	–	–	293
Transfer from share-based payments reserve	25	–	–	–	(14,000)	–	14,000	–
Net proceeds from share issues	25	3,278	21,326	–	–	–	–	24,604
Proceeds from options exercised		16	32	–	–	–	–	48
Total transactions with owners		3,294	21,358	–	(13,707)	–	14,000	24,945
Balance at 31 December 2021		13,936	221,059	369	2,638	3,151	(211,476)	29,677

Notes

The notes on pages 54 to 80 are part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Cash flows from operating activities			
Operating loss		(8,973)	(8,761)
Depreciation and amortisation		1,084	1,099
Loss on disposal of intangible assets	17	–	72
Impairment of inventory	21	118	270
Share-based payments		293	120
Changes in working capital (excluding the effects of exchange differences on consolidation)			
Trade and other receivables		4,908	(4,545)
Trade and other payables		2,037	(399)
Other liabilities		(566)	(2,330)
Deferred revenue	29	(7,830)	2,124
Inventory		85	2,092
Cash consumed by operations		(8,844)	(10,258)
Tax credits received		759	648
Net cash used in operating activities		(8,085)	(9,610)
Cash flows from investing activities			
Purchase of property, plant and equipment	18	(2,730)	(342)
Purchase of intangible assets	17	(518)	(513)
Interest received		34	6
Net cash used in investing activities		(3,214)	(849)
Cash flows from financing activities			
Proceeds from issue of shares	25	26,222	21,000
Costs of issuing shares		(1,618)	(1,363)
Proceeds from issue of share options		48	12
Principal elements of lease payments	19	(485)	(457)
Interest paid	8	(116)	(142)
Proceeds from borrowings		–	567
Net cash generated from financing activities		24,051	19,617
Net increase in cash and cash equivalents		12,752	9,158
Cash and cash equivalents at beginning of year	22	13,051	4,797
Exchange movements on cash and cash equivalents		(297)	(904)
Cash and cash equivalents at end of year	22	25,506	13,051

Notes

The notes on pages 54 to 80 are part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General information

Velocys plc is a company incorporated and domiciled in England. It operates through a number of subsidiaries in the UK and the US, and collectively they are referred to in the financial statements as the "Company" or "Velocys", with Velocys plc as "Velocys plc" or the "parent company". The nature of the Company's operations and its principal activities are set out in the Strategic report on pages 06 to 09. The parent company financial statements are included on pages 81 to 90. The parent company's securities are traded on the Alternative Investment Market ("AIM") of The London Stock Exchange under the symbol "VLS".

2. Accounting policies

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

Basis of preparation

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

The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities at fair value, where relevant. No such adjustments to financial assets or liabilities were required in 2021 or 2020.

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 financial statements have been prepared on the going concern basis, which assumes that the Company and Velocys plc will have sufficient funds available to enable them to continue to trade for not less than twelve months from the date of approval of the financial statements.

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. These forecasts, including analysis of a severe but plausible downside scenario showed that the Company and Velocys plc have sufficient funding for this period.

During December 2021 the Company raised £26.2 million (before expenses) by way of a VCT Placing, General Placing and Open Offer. The directors do not anticipate that any further funding to the Company will come from further placing of the parent company shares within the twelve months from the date of signing the financial statements. However additional income may come from one, or a combination of, the following sources, with agreements being actively sought from third parties:

- Selling additional technology licences;
- Additional strategic investment into either or both of Bayou Fuels and Altalto projects; and
- UK or USA Government loans or grants.

The directors have therefore prepared the financial statements on a going concern basis.

Changes in accounting policies

New standards, interpretations and amendments adopted from 1 January 2021

The Company has assessed the new standards, interpretations and amendments issued that are effective from 1 January 2021 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 16 to 19, and in note 24.

Capital management policies
Capital management policies are set out in note 24.

Significant accounting policies

Consolidation – subsidiaries

The acquisition method of accounting is used to account for the acquisition of subsidiaries in the Company. The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred. Directly attributable costs are expensed to the income statement. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the acquiring company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement. Acquired subsidiaries are consolidated from the date on which control of the subsidiary is transferred to the Company.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Foreign currency translation

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

Transactions and balances
Foreign currency transactions are booked in the functional currency of the entity at the exchange rates ruling at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year- end exchange rates of monetary assets and liabilities denominated in foreign currencies are included in the Income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated Income statement within Finance income or Finance costs.

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

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Other significant accounting policies

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

Notes to the consolidated financial statements (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 or judgement	
Share-based payments	15
Acquisition of Rula Developments (Immingham) Ltd	4
Revenue recognition under IFRS 15	6 and 29
Intangible assets – impairment assessment	17

4. Acquisition of Rula Developments (Immingham) Ltd

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

As at 31 December 2021, the Company was actively seeking to sell the entire share capital of RDIL to a third party in order to fund the deferred consideration. Following the reporting period end, in March 2022, RDIL was sold to a subsidiary of Foresight Group LLC, with a call option to repurchase RDIL within three years. For further details, please refer to Note 32 (Post financial position events). The RDIL assets have been presented in the consolidated financial statements as non-current assets because the existence of the call option means control of the asset does not pass to the purchaser of the RDIL shares and will therefore remain on the consolidated balance sheet during the three year option period. Below are the critical estimates and judgements made in determining the appropriate accounting treatment of the acquisition.

Critical estimates and judgements

In assessing whether the acquisition of RDIL constitutes a business combination or the acquisition of an asset, management considered the optional concentration test set out in IFRS 3. This test is a simplified assessment of whether what has been acquired is a business with assets and activities to process those assets, or simply a collection of assets. It poses the question of whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets, or not.

Based on a detailed analysis of the assets acquired, the Company decided that substantially all of the fair value of RDIL's assets was concentrated in a single asset, namely the development site at Immingham. Therefore, the Company is required to account for the acquisition as an asset purchase and allocate the total costs of the acquisition (including acquisition expenses) to the assets and liabilities according to their respective fair values.

Acquisition cost and allocation of assets

The total cost of the asset acquisition was as follows:

	£'000
Cash paid	2,483
Deferred consideration	7,250
Acquisition expenses (legal fees etc)	88
Total purchase consideration	9,821

The assets and liabilities recognised as a result of the acquisition are as follows:	Book value £'000	Adjustment £'000	Fair value £'000
Cash and cash equivalents	1	–	1
Property, plant and equipment - development land	541	9,279	9,820
Trade and other receivables	1	–	1
Trade and other payables	(1)	–	(1)
Net assets acquired	542	9,279	9,821

Appropriate valuation of the deferred consideration
The acquisition of RDIL included deferred consideration of £7.25m. This exact amount was settled in March 2022, and therefore management consider that this value at 31 December 2021 is appropriate.

5. Segmental information

The Company's 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.

	2021 £'000	2020 £'000
Asia Pacific	151	157
Americas	8,132	21
Total revenue	8,283	178

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

	2021 £'000	2020 £'000
Customer 1	8,132	157
Customer 2	151	21
Total revenue	8,283	178

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

	2021 £'000	2020 £'000
Intangible assets	620	213
Property, plant and equipment	725	1,260
Right-of-use asset	415	422
Total	1,760	1,895

All other non-current assets were held in the United Kingdom and amounted to £10,832,000 (2020: £977,000).

Notes to the consolidated financial statements (continued)

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 was either subject to a performance test run in 2021 or the performance obligations expired under the terms of the contract in 2021 if the test was not completed. This has been assessed as a combined performance obligation and it was determined in 2021 that the above criteria have now been met. As such, all consideration received has been recognised as revenue in the year.

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.

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.

	2021 £'000	2020 £'000
FT reactor, catalyst and licence	8,132	63
Engineering services	151	115
Total	8,283	178

FT reactor, catalyst and licence revenue in the amount of £8,132,000 for the year ended 31 December 2021 consisted principally of the sale of reactor and catalyst to a customer in the US, which had previously been deferred.

Revenue from engineering services was recognised on a time and materials basis during the period in which the services were delivered.

7. Finance income

	2021 £'000	2020 £'000
Interest income on bank deposits	2	6
Interest income on customer late payments	32	–
Total	34	6

8. Finance costs

	2021 £'000	2020 £'000
Interest on lease liabilities	116	142
Foreign exchange losses	435	708
Total	551	850

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.

	2021 £'000	2020 £'000
Income from government grants	956	290
Release of aged deposit received	–	80
Profit on sale of fixed assets	–	30
Total	956	400

10. Administrative expenses

	2021 £'000	2020 £'000
Employee benefit expense (note 12)	6,310	4,530
Sub-contractor and consultant costs	2,799	1,171
Depreciation of property, plant and equipment (note 18)	453	500
Amortisation of intangible assets (note 17)	172	137
Depreciation of right-of-use asset (note 19)	459	462
Patent and other IP costs	193	104
Insurance	536	392
Other direct and administrative costs	1,257	1,043
Professional services	756	404
Legal	215	358
Travel	181	137
Total administrative expenses	13,331	9,238

Included in administrative expenses were research and development costs of £2,122,000 (2020: £1,603,000).

11. Auditors' remuneration

	2021 £'000	2020 £'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	202	192
For the audit of the parent company and consolidated financial statements in respect of the prior year	–	30
For the audit of the financial statements of subsidiaries of the parent company in respect of the current year	58	35
For the audit of the financial statements of subsidiaries of the parent company in respect of the prior year	–	5
For the review of the interim consolidated financial statements in respect of the current year	40	–
Other services:		
International payroll taxation services	–	12
Total	300	274

Notes to the consolidated financial statements (continued)

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.

	2021 Number	2020 Number
Research, design and development	17	17
Administration	15	16
Total	32	33

Their aggregate remuneration comprised the following items.

	2021 £'000	2020 £'000
Wages and salaries	4,783	4,813
Short-term non-monetary benefits	491	560
Social security contributions and similar taxes	616	393
Defined contribution pension costs	330	228
Severance expense	–	43
Share-based payments granted to directors and employees (note 15)	293	120
Total remuneration before capitalisation of wages and salaries	6,513	6,157
Capitalisation of wages and salaries	(203)	(1,627)
Total remuneration	6,310	4,530

Wages and salaries for the year ended 31 December 2021 include discretionary bonuses payable in 2022 to Executive Directors and employees totalling £1,052,000 (2020: £983,000) in respect of 2021 performance. The bonuses included in 2020 of £983,000 related to payments in respect of 2019 performance (no bonuses were awarded in respect of 2020 performance).

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

The 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).

Details of directors' remuneration are given in the audited information in the Directors' remuneration report on pages 33 to 34, 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.

	2021 £'000	2020 £'000
Current tax:		
R&D tax credit relating to prior years	(162)	–
R&D tax credit relating to current year	(887)	(810)
Current tax total	(1,049)	(810)
Income tax total	(1,049)	(810)

Due to the availability of losses incurred in the year, there is no charge to corporation tax. The Company recognised £1,049,000 for R&D tax credits (2020: £810,000). The credit relating to the current year is on an accruals basis, which is an estimate of the amount to be claimed from HMRC based on the assessment of the Company's projects, to determine which ones qualify under HMRC's rules, and to estimate the level of allowable cost within each, based on the nature of costs.

The actual tax credit for the current and previous year is lower than the 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.

	2021 £'000	**2020 £'000**
Loss before income tax	(9,490)	(9,605)
Tax calculated at domestic tax rates applicable to losses in the respective countries	(1,898)	(1,825)
Tax effects of:		
Expenses not deductible for tax purposes	34	5
Remeasurement of deferred tax for changes in tax rates	(4,096)	(1,254)
Unutilised tax losses for which no deferred tax asset is recognised	5,960	3,074
R&D tax credit	(1,049)	(810)
Income tax total	(1,049)	(810)

The weighted average applicable tax rate was 20% (2020: 20%).

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

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.

	2021 £'000	**2020 £'000**
Unrecognised Deferred tax assets		
Trading losses	(33,031)	(28,660)
Share based payments	(304)	(321)
Total	(33,335)	(28,981)

At 31 December 2021, the Company had a net unrecognised deferred tax asset of £33,031,000 (2020: £28,660,000) arising from trading losses since incorporation. No recognition (2020: £nil) of the net deferred tax asset has been made at 31 December 2021 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 £17,068,000 (2020: £12,889,000) is anticipated to remain available indefinitely to offset against future taxable trading profits of the entities in which the losses arose. The remainder has expiry dates between 2023 and 2037 (2020: 2025 and 2039).

The unrecognised deferred tax asset of £304,000 (2020: £321,000) in respect of share based payments is calculated by reference to the intrinsic value of outstanding share options as at 31 December.

Notes to the consolidated financial statements (continued)

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 generally 10 years, adjusted, using management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

At the end of each reporting period, for awards not containing a market condition the Company revises its estimates of the number of options that are expected to vest, based on historical satisfaction of non-market vesting and service conditions. It recognises the impact of the revision to original estimates in the Income statement, 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 2021 and the expense recognised in the Consolidated income statement for these schemes, along with other schemes, was as follows.

	2021		2020	
	Options outstanding	**Income statement £'000**	**Options outstanding**	**Income statement £'000**
Employees UK/US	15,970,000	70	16,691,961	59
LTIP (Executives and Senior Management team)	44,198,567	223	34,842,671	61
Velocys, Inc.	–	–	45,543	–
Other	212,625	–	212,625	–
Total	60,381,192	293	51,792,800	120

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 grant date fair value of equity-settled transactions with employees granted in 2021, the Company used a Black-Scholes model and a Monte-Carlo simulation model.

Employees UK/US

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

The Special Awards granted vest over a three year period with the first of three tranches vesting on 9 February 2022 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 set at the time of grant was 7.86p for some employees and 6.80p for the rest. 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 2020.

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

	2021		2020	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	12.24p	16,691,961	12.31p	17,993,269
Granted	7.01p	2,500,000	–	–
Forfeited	31.49p	(1,621,961)	11.79p	(901,308)
Exercised	3.00p	(1,600,000)	3.00p	(400,000)
At 31 December	10.45p	15,970,000	12.24p	16,691,961

Of the 15,970,000 options outstanding at 31 December 2021, 13,470,000 were exercisable (2020: 11,568,624). The weighted average exercise price of the exercisable shares was 11.09p (2020: 16.03p).

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

	2021			2020	
Year of expiry	Range of exercise price	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
2021	–	–	–	50.91p	421,961
2022	65.97p	65.97p	10,000	65.54p	10,000
2023	177.18 – 194.94p	187.22p	460,000	185.98p	460,000
2024	191.23p	191.23p	30,000	220.01p	130,000
2025	164.86p	164.86p	100,000	163.77p	100,000
2026	27.60 – 37.06p	28.95p	70,000	28.74p	70,000
2029	3.00p	3.00p	12,800,000	3.00p	15,500,000
2031	6.80p – 7.86p	7.01p	2,500,000	–	–
Total	3.00 – 194.94p	10.45p	15,970,000	12.24p	16,691,961

In respect of the 2,500,000 options granted in 2021, the significant inputs into the Black-Scholes model were as follows:

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

The weighted average fair value of the options granted in 2021 was 5.65p (2020: no grants).

The total expense recognised in the Consolidated income statement for share options granted to the Executive Directors and employees was £70,000 (2020: £59,000).

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.

Notes to the consolidated financial statements (continued)

15. Share-based payments (continued)

The time based share options awarded in February 2021 vest and become exercisable on the third anniversary of the grant date in February 2024 and expire after ten years. The exercise price was set at the time of grant at 7.86p. 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 granted in February 2020 vest and become exercisable in full, in February 2024, on the third anniversary of the grant date provided the Company weighted average market capitalisation for the month preceding that third anniversary is at least £125.55 million. The options expire after ten years. The options will normally lapse if the option holder ceases to hold an office or employment within the Group. Options are fair valued at the grant date using the Monte-Carlo model, and expensed over the vesting period. Provided the performance target is achieved, the option exercise price is 7.86p.

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.

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

	2021		2020	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	7.54p	34,842,671	14.55p	38,568,280
Granted	7.86p	14,088,208	–	–
Forfeited	7.55p	(4,732,312)	60.51p	(3,725,609)
At 31 December	7.64p	44,198,567	7.54p	34,842,671

Of the 44,198,567 options outstanding at 31 December 2021, 8,639,120 were exercisable (2020: 4,933,069). The weighted average exercise price of the exercisable shares was 19.64p (2020: 27.31p).

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

	2021			2020	
Year of expiry	Range of exercise price	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
2021	–	–	–	58.00p	81,250
2022	–	–	–	49.00p	212,700
2023	159.00p	159.00p	283,191	159.00p	283,191
2024	153.00 - 163.50p	161.00p	214,543	161.00p	214,543
2025	1.00p	1.00p	141,385	1.00p	141,385
2029	3.00 - 15.00p	5.13p	30,967,614	5.24p	33,909,602
2031	7.86p	7.86p	12,591,834	–	–
Total	1.00p - 163.50p	7.64p	44,198,567	7.54p	34,842,671

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

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

The weighted average fair value of the options granted in 2021 was 5.77p (2020: no grants).

The total expense recognised in the Consolidated income statement for LTIP options granted to the Executive Directors and employees was £223,000 in 2021 (2020: £61,000).

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 exercise price was equal to the stock's fair market value at the date of grant and are exercisable in US dollars. Options are forfeited if an employee leaves the Company.

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

	2021		2020	
	Weighted average exercise price	**Number of options**	**Weighted average exercise price**	**Number of options**
At 1 January	$0.93	45,543	$0.93	58,566
Forfeited	$0.93	(45,543)	$0.93	(13,023)
At 31 December	–	–	$0.93	45,543

At 31 December 2021 there were no options outstanding and none were exercisable.

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

		2021		2020	
Year of expiry	**Range of exercise price**	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**	**Number of options**
2021	–	–	–	$0.93	45,543
Total	–	–	–	$0.93	45,543

All expenses in relation to this scheme have been recognised prior to 2020.

Notes to the consolidated financial statements (continued)

15. Share-based payments (continued)

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 1.00p to the mid-market value of Velocys plc's ordinary shares on the day prior to grant. Options are fair valued at grant date using the Black-Scholes model (which is not the fair value of goods and services received). For a completed service period, fair value is expensed immediately. For a future service period, 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.

	2021		2020	
	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	–	–	–	–
Forfeited	–	–	–	–
At 31 December	104.15p	212,625	104.15p	212,625

Of the options issued to consultants and outstanding at 31 December 2021, all 212,625 were exercisable (2020: 212,625). The weighted average exercise price of the exercisable shares was 104.15p (2020: 104.15p).

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

		2021		2020	
Year of expiry	Range of exercise price	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
2022	53.10p	53.10p	29,500	53.10p	29,500
2024	145.25p	145.25p	21,375	145.25p	21,375
2025	105.25 – 143.50p	108.03p	161,750	108.03p	161,750
Total	53.10p - 145.25p	104.15p	212,625	104.15p	212,625

No options have been granted to consultants in respect of 2021 and 2020.

The share-based payment expense for the year includes a cost of £nil (2020: £nil) relating to options granted to consultants.

Share-based payments charge
The total charge for share-based payments during the year was £293,000 (2020: £120,000) of which £124,000 (2020: £28,000) relates to options granted to directors; 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.

	2021	2020
Loss attributable to owners of Velocys plc (£'000s)	(8,441)	(8,795)
Weighted average number of ordinary shares in issue	1,078,827,346	836,710,315
Basic and diluted loss per share (pence)	(0.78)	(1.05)

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 2021 and 2020 there were no other potentially dilutive instruments (see note 25). Details of share options are given in note 15.

17. Intangible assets

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

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

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

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 £172,000 for patents, licences and trademarks are included in administrative expenses (2020: £137,000). There were no amortisation charges recorded in respect of other classes of intangible assets during the year as their net book value was £nil (2020: £nil).

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

Impairment testing is initially performed at the individual asset level. The impairment test is then performed at the Cash Generating Unit ("CGU") level whereby the carrying value of each CGU is compared with its fair value. Should an impairment at a CGU level be detected, then the impairment is allocated against the CGU individual assets; initially against any Goodwill then against the other assets.

A CGU represents the lowest operating structure level for which there are separately identifiable cash inflows that are largely independent of other operating units. The Company has one CGU on the basis that the key end use market is that of sustainable transport fuels production. At this stage, the sustainable transport fuels segment represents 100% of the business and therefore represents the only material segment. Based on management's judgement, all products and services offered within the operating segment have similar economic characteristics.

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

The Company last recorded an impairment of intangible assets, which totalled £28.8m, in 2017. This 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.

Notes to the consolidated financial statements (continued)

17. Intangible assets (continued)

For the impairment testing of the single identified CGU, the Company, the recoverable amount is determined by comparing the carrying amount of the Company's total net assets with the fair value of the business, by reference to the value of Velocys plc's market capitalisation. This approach is followed to also determine whether any reversal of previous impairments is required.

The analysis performed at 31 December 2021 compared the carrying amount of £1.4m with the value of Velocys plc's equity based on the AIM-listed shares at this date.

This assessment also considered the operating performance of the Company during 2021 which included progress on our reference projects and new external funding obtained. Whilst there was clear evidence of the Company's progress during 2021, 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 2021, the Company considered:

- At 31 December 2021, 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 2021 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.

Management also concluded that at 31 December 2021 there were insufficient indicators that impairment losses previously recognised had reversed. This was despite the market capitalisation exceeding the carrying amount of the Company's net assets, as the Board concluded that the Company's current commercial position, without any significant new customer contracts or additional investors into the reference projects outweighed the other positive aspects considered.

2021	Goodwill £'000	In-process technology £'000	Patents, licence and trademarks £'000	Software £'000	Total £'000
Cost					
At 1 January 2021	7,398	23,681	1,971	96	33,146
Additions	–	–	513	5	518
Foreign exchange movement	–	–	7	–	7
At 31 December 2021	7,398	23,681	2,491	101	33,671
Accumulated amortisation and impairment					
At 1 January 2021	7,398	23,681	1,231	96	32,406
Charge for the year	–	–	172	–	172
Foreign exchange movement	–	–	7	–	7
At 31 December 2021	7,398	23,681	1,410	96	32,585
Net book amount					
At 31 December 2021	–	–	1,081	5	1,086

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

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)

2021	Assets under construction £'000	Land £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2021	–	1,221	9,307	10,528
Additions	–	9,820	160	9,980
Disposals	–	–	(344)	(344)
Foreign exchange	–	8	58	66
At 31 December 2021	–	11,049	9,181	20,230
Accumulated depreciation and impairment				
At 1 January 2021	–	1,074	7,975	9,049
Charge for the year	–	–	453	453
Disposals	–	–	(345)	(345)
Foreign exchange	–	7	60	67
At 31 December 2021	–	1,081	8,143	9,224
Net book amount				
At 31 December 2021	–	9,968	1,038	11,006

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
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

The addition of £9,820,000 of land is in respect of the development site at Imminghan, UK. Refer to note 4 for further details.

As at 31 December 2021, the Company had not entered into any other contractual commitments for the material acquisition of property, plant and equipment (2020: none).

As at 31 December 2021, the gross carrying amount of fully depreciated property, plant and equipment still in use was £7,217,000 (2020: £3,827,000).

19. Leases

The Company leases certain buildings and equipment under non-cancellable leases with varying lease terms. For these leases, that convey the right to control the use of an identified asset for a period of time, the Company recognises, on the Statement of Financial Position, a 'right-to-use asset' and a lease liability. These liabilities are measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at the inception of the lease or at any later lease extension. The incremental borrowing rates used are estimates and rely on management judgements.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the Income Statement over the lease period so as to produce a constant rate of interest on the remaining balance of each lease at each Reporting date.

To determine the incremental borrowing rate, the Company uses a build-up approach. This starts with a risk-free interest rate, adjusted for the credit risk for leases that do not have recent third party financing. Adjustments specific to the lease, e.g. term, country, currency and security, are then made to this risk free rate. Interest expense (included in finance costs) was £116,000 (2020: £142,000). The total cash outflow as a result of leasing activity was £588,000 (2020: £572,000).

Lease terms are negotiated on an individual basis, and are with different lessors. The lease agreements do not impose any covenants, other than for the security interests of the lessor, over the leased assets. The assets may not be used as security for borrowing purposes. Building leases are typically for a fixed period of time, but some have had their lease terms extended by agreement with the lessor.

The associated right-of-use assets are initially measured at an amount equal to the lease liability. Any reassessment of the lease liability, such as at a lease extension, results in an equal adjustment in the net book value of the associated asset. The right-of-use assets are depreciated over the lease term on a straight-line basis and are subject to impairment in accordance with IAS 36. No impairment was recorded at 31 December 2021 and at 31 December 2020.

Payments relating to short-term leases and to leases of low-value assets, are recognised as they fall due as an expense in the Income Statement. Short-term leases are leases with a lease term of 12 months or less. Expenses related to short term leases and lease of low-value was £nil (2020: £2,000) and were included in administrative expenses.

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

2021	Equipment £'000	Buildings £'000	Total £'000
Cost			
At 1 January 2021	210	1,314	1,524
Additions	–	316	316
Disposals	(49)	(88)	(137)
Foreign exchange	1	6	7
At 31 December 2021	162	1,548	1,710
Accumulated depreciation			
At 1 January 2021	122	749	871
Charge for the year	44	415	459
Disposals	(45)	(85)	(130)
Foreign exchange	–	10	10
At 31 December 2021	121	1,089	1,210
Net Book value			
At 31 December 2021	41	459	500

Notes to the consolidated financial statements (continued)

19. Leases (continued)

2020	Equipment £'000	Buildings £'000	Total £'000
Cost			
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

During 2021 the lease terms for the Company's offices in Ohio and Texas were extended. This resulted in an increase in the right-to-use assets of £316,000. The addition in 2020 of £296,000 related to the expansion of the Company's office space at its Oxford headquarters.

In 2021, an extension of the lease term for the Oxford headquarters, together with a reappraisal of the incremental borrowing rate of the lease and its remaining term, led to an effective net disposal in value of this lease of £22,000 (2020: £nil). In addition, there were sundry adjustments and corrections totalling £19,000 (2020: £nil) resulting in a net disposal in buildings lease values of £3,000.

During 2021 various equipment leases expired which have been derecognised. In addition, management's review of the lease assets resulted in the early decognision of a further equipment right-of-use asset. The net effect of derecognising these assets resulted in a net decrease of £4,000 (2020: £nil).

Lease liability	2021 £'000	2020 £'000
Current	397	470
Non-Current	189	270
Total	586	740

20. Trade and other receivables

	2021 £'000	2020 £'000
Trade receivables	6	110
Deferred costs	–	4,947
Prepaid costs	748	531
Grants receivable	158	290
Other receivables	362	304
Total	1,274	6,182

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 as at 31 December 2020 are in respect of a customer contract for which the Company also recorded deferred revenue as shown in note 29, these costs were fully expensed in 2021.

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

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

Grants receivable at 31 December 2021 were in respect of the Green Fuels Green Skies grant awarded to the Altato project. Grants receivable of £290,000 as at 31 December 2020 also related to grant funding for the Altalto project from the UK DfT, under the Future Fuels for Flight and Freight Competition.

Other receivables consist of vendor deposits and sales taxes recoverable.

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.

	2021 £'000	2020 £'000
Raw materials and consumables	286	336
Work in progress	–	45
Finished goods	481	589
Total	767	970

Raw materials and consumables consist of parts that will be consumed in the manufacturing of reactors.

As at 31 December 2021, the Company had a total inventory provision of £771,000 (2020: £653,000). The Company recorded £118,000 (2020: £270,000) related to slow moving inventory in the Administrative expenses line of the Consolidated income statement.

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.

	2021 £'000	2020 £'000
Cash and cash equivalents	25,506	13,051
Total	25,506	13,051

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

	2021 £'000	2020 £'000
Cash and cash equivalents		
UK sterling denominated	16,908	6,584
US dollar denominated	8,584	6,465
Euro denominated	14	2
Total	25,506	13,051

Notes to the consolidated financial statements (continued)

23. Trade and other payables

	2021 £'000	2020 £'000
Trade payables	593	360
Other taxation and social security	203	31
Accruals	2,173	541
Total	2,969	932

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 (2020: 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 2021, there were £nil (2020: £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. Following the fundraise in December 2021, the Company does not expect to require a further fundraise within the twelve months following date of approval of these financial statements.

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.

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;
- Additional strategic investment of development capital into either or both of the Bayou Fuels and Altalto projects, expected during 2022 and 2023; and
- UK or US government loans or grants.

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.

Capital management

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

Exchange rates

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

The use of financial derivatives is governed by Company policies, which are approved by the Board, and which provide a set of written principles for the management of these risks. At 31 December 2021, there were no financial derivatives (2020: £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.

	2021		2020	
	Income statement £'000	Equity £'000	Income statement £'000	Equity £'000
GBP: USD exchange rate +/- 10%	136	880	589	543

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 equivalent was as follows:

	2021 £'000	2020 £'000
Cash and cash equivalents	8,584	6,465
Trade receivables	365	110
Trade payables	166	74
Debt	–	523

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 has been forgiven during 2021.

The Company had no borrowings, other than lease liabilities, at 31 December 2021.

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.

Notes to the consolidated financial statements (continued)

24. Financial instruments (continued)

Financial assets are as follows.

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

	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

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

	2021		2020	
Short-term bank deposits, cash at bank and in hand	£'000	%	£'000	%
Aa2	7,598	30	81	1
Aa3	780	3	6,299	48
A1	17,128	67	6,671	51
Total	25,506	100	13,051	100

Financial liabilities are as follows.

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

	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

The contractual maturity of financial liabilities is as follows.

	2021 £'000	2020 £'000
Within one year	3,594	1,524
Within two to five years	189	640
Total	3,783	2,164

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 2020	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 and 1 January 2021	1,064,156	10,642	199,701
Proceeds from share issues	327,815	3,278	22,944
Expenses of share issues	–	–	(1,618)
Proceeds from exercise of options	1,600	16	32
At 31 December 2021	1,393,571	13,936	221,059

Notes

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

Ordinary shares

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

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

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.

A total of 60,381,192 (2020: 51,792,800) options to subscribe for Ordinary shares of Velocys plc have been granted and are outstanding at 31 December 2021 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 2021, the Company's foreign exchange reserve was a credit balance of £3,151,000 (2020: £3,038,000).

The share-based payment reserve records the IFRS 2 charge for equity settled share-based payment awards. At 31 December 2021, the Company's share-based payment reserve was £2,638,000 (2020: £16,345,000). The reduction in the share-based payments reserve was driven by a transfer to accumulated losses, as the reserve was no longer required due to the expiry of underlying options.

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 2021 and 31 December 2020, the Company did not have any short-term or low-value leases with lease term greater than one month.

27. Borrowings

Borrowings as at 31 December 2020 comprised 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. The unsecured loan, with a 2-year maturity and a fixed rate of interest of 0.98%, was fully forgiven during the year ended 31 December 2021 and the cancellation of the liability was recorded in other income as a grant.

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

	Book value £'000	Fair value £'000
Current at 31 December 2020		
Unsecured government loan	152	152
Current at 31 December 2021		
Unsecured government loan	–	–

	Book value £'000	Fair value £'000
Non-current at 31 December 2020		
Unsecured government loan	371	371
Non-current at 31 December 2021		
Unsecured government loan	–	–

Borrowings are repayable as follows.

	2021 £'000	2020 £'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.

	2021 £'000	2020 £'000
US dollars	–	523

28. Other liabilities

Other liabilities of £431,000 as at 31 December 2021 comprised amounts owed by the Company in respect of the various corporate insurance policies covered by a financing arrangement.

Other liabilities of £474,000 as at 31 December 2020 comprised contract liabilities related to the development funding received from industry partners in respect of the UK Altalto Immingham waste-to-jet fuels project. There was no remaining liability as at 31 December 2021.

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 2020	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**
Contract liabilities incurred	–	–	336	336
Released deferred revenue	(3,186)	(3,445)	(1,535)	(8,166)
At 31 December 2021	–	326	–	326

The deferred revenue remaining at 31 December 2021, is shown on the balance sheet as a current liability. Deferred revenue totalling £8,166,000 has been recognised during 2021 as the related performance obligations have been met.

30. Related parties

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

Disclosures related to key management personnel can be found in the Directors' remuneration report, see pages 33 to 34. Only the Executive and Non-Executive Directors are recognised as being key management personnel.

31. Net cash reconciliation

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

	2021 £'000	2020 £'000
Cash and cash equivalents	25,506	13,051
Borrowings	–	(523)
Lease liabilities	(586)	(740)
Net cash	24,920	11,788
Cash and cash equivalents	25,506	13,051
Gross debt – fixed interest rate	(586)	(1,263)
Net cash	24,920	11,788

Notes to the consolidated financial statements (continued)

31. Net cash reconciliation (continued)

	Liabilities from financing activities				
£'000	Borrowings £'000	Leases £'000	Sub-total £'000	Cash/bank overdraft £'000	Total £'000
Net (debt)/cash as at 1 January 2020	–	(924)	(924)	4,797	3,873
Cash flows	(541)	161	(380)	9,158	8,778
Foreign exchange adjustments	18	23	41	(904)	(863)
Net (debt)/cash as at 31 December 2020	(523)	(740)	(1,263)	13,051	11,788
Cash flows	–	169	169	12,759	12,928
Loan Forgiveness	523	–	523	–	523
Foreign exchange adjustments	–	(15)	(15)	(304)	(319)
Net (debt)/cash as at 31 December 2021	**–**	(586)	(586)	25,506	24,920

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.

32. Post financial position events

The following events took place after 31 December 2021.

Grant of share options to Executives and employees

In January 2022, the Company granted options under the 2021 Share Option Scheme totalling 11,378,282 to Executives and senior management in respect of 2021 performance and options totalling 1,500,000 to new employees who joined the Company during 2021. The exercise price was set at the time of grant at 8.00 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, Henrik Wareborn and Andrew Morris received a total of 2,343,750 and 2,109,376 options respectively, allocated equally between time-based and performance-based options.

Directorate change

Andrew Morris, CFO, has advised the Board of his intention to leave Velocys in order to pursue other career opportunities. The intention is for Andrew to step down as CFO and Board Director on 30 June 2022. The recruitment process of the next CFO is underway.

Sale and purchase option over Altalto Project site with Foresight Group LLP

In March 2022 Altalto Immingham Ltd ("Altalto") a wholly owned subsidiary of Velocys plc sold its 100% interest in Rula Developments (Immingham) Ltd ("RDIL") for £9.75 million, with a call option for Altalto to re-purchase RDIL within three years paying up to £11.75 million plus a quarterly option fee of £100,000 during the option period. This allowed Altalto to settle the deferred consideration payable of £7.25 million from the transaction that took place in December 2021, when Altalto took up its option to purchase RDIL, the property development company which owns the project site in Immingham, North East Lincolnshire, UK. Additionally, and subject to the exercise of the re-purchase option, Altalto has agreed to grant Foresight a right of first refusal to invest up to £100 million into the project, alongside British Airways and other future investors, once the full funding is required. The financial effects of this transaction have not been recognised as of 31 December 2021.

New technical centre in Ohio

In March 2022 the Company secured a 15 year lease for a modern and sustainable facility of approximately 52,500 square feet of new building to be built near Columbus, Ohio. This will consolidate all our catalysis services, microchannel reactor core assembly and technology licensing under one roof. In line with our recent Placing Circular, this will involve a capital investment of up to £1.5 million in the building enhancements to fit our specific needs and £4.8 million in reactor core assembly automation enabling steady output of at least 12 reactors per year. It is expected that we will start moving into the building in Q4 2022 and Q1 2023.

Extension of agreements with British Airways

In March 2022, the Company agreed with British Airways ("BA") to extend both the UK Altalto project Joint Development Agreement and the Option Agreement for BA to acquire 50% of Altalto Ltd by one year to 31 March 2023. The original option was signed on 12 May 2020 and initially extended on 30 March 2021.

Velocys plc statement of financial position

As at 31 December 2021

	Note	2021 £'000	2020 £'000
Assets			
Non-current assets			
Investments in subsidiaries	9	9,244	9,121
Property, plant and equipment	8	7	10
Right of use asset	10	85	–
		9,336	9,131
Current assets			
Trade and other receivables	11	19,250	9,805
Current income tax asset	6	706	595
Cash and cash equivalents		15,395	6,870
		35,351	17,270
Total assets		44,687	26,401
Liabilities			
Current liabilities			
Trade and other payables	12	(1,141)	(341)
Lease liability	10	(94)	–
Other liabilities	12	(344)	–
Total liabilities		(1,579)	(341)
Net assets		43,108	26,060
Capital and reserves attributable to owners of Velocys plc			
Called up share capital	14	13,936	10,642
Share premium account	14	221,059	199,701
Share-based payment reserve	14	2,638	16,345
Accumulated losses			
At 1 January		(200,628)	(195,428)
Loss for the year attributable to owners		(7,897)	(5,200)
Transfer from share-based payment reserve		14,000	–
Total equity		43,108	26,060

The notes on pages 84 to 91 are part of these parent company financial statements.

The financial statements on pages 81 to 91 were approved by the Board of directors on 16 May 2022 and signed on its behalf by:

Henrik Wareborn

Henrik Wareborn
Chief Executive Officer

16 May 2022

Company number 05712187

Velocys plc statement of changes in equity

For the year ended 31 December 2021

	Called up share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 2020	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
Net 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
Net loss for the year	–	–	–	(7,897)	(7,897)
Total comprehensive expense	–	–	–	(7,897)	(7,897)
Transactions with owners					
Share-based payments – value of employee services	–	–	293	–	293
Transfer from share-based payments reserve	–	–	(14,000)	(14,000)	–
Net proceeds from share issues	3,278	21,326	–	–	24,604
Proceeds from options exercised	16	32	–	–	48
Total transactions with owners	3,294	21,358	(13,707)	14,000	24,945
Balance at 31 December 2021	13,936	221,059	2,638	(194,525)	43,108

The notes on pages 84 to 90 are part of these parent company financial statements.

Velocys plc statement of cash flows

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Cash flows from operating activities			
Operating loss		(8,706)	(5,398)
Depreciation	8	52	17
Impairment of loans due from subsidiaries	11	1,981	1,756
Share based payments		170	120
Changes in working capital:			
Trade and other receivables		(306)	(117)
Trade and other payables		799	(747)
Other liabilities		344	–
Cash consumed by operations		(5,666)	(4,369)
Tax credit received		755	539
Net cash used in operating activities		(4,911)	(3,830)
Cash flows from investing activities			
Loans advanced to subsidiary undertakings		(11,120)	(10,044)
Purchase of property, plant and equipment	8	(7)	–
Net cash used in investing activities		(11,127)	(10,044)
Cash flows from financing activities			
Proceeds from issue of shares	14	26,222	21,000
Costs of issuing shares	14	(1,618)	(1,363)
Proceeds from exercise of options		48	12
Principal elements of lease payments		(32)	–
Net cash generated from financing activities		24,620	19,649
Net movement in cash and cash equivalents		8,582	5,775
Cash and cash equivalents at beginning of the year		6,870	1,492
Exchange movements on cash and cash equivalents		(57)	(397)
Cash and cash equivalents at end of the year		15,395	6,870

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 54 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 £7,897,000 (2020: loss £5,200,000).

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 16 to 19, 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 - expected credit loss analysis	11
Share based compensation	16

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 parent company are classified as exceptional items. They include, for instance, impairments to the parent company's loans due from subsidiaries. Exceptional items are included within the 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.

	2021 £'000	2020 £'000
Impairment of loans due from subsidiaries	(1,981)	(1,756)
Total	(1,981)	(1,756)

At the end of 2021 and 2020, the parent company reviewed for impairment its investments in subsidiaries by reference to the respective closing market capitalisation value. It concluded that no impairment was required at 31 December 2021 or at 31 December 2020 as the market capitalisation value significantly exceeded the book value of its investments in subsidiaries.

The parent company recorded a total loss allowance at 31 December 2021 of £3,864,000 (2020: £1,883,000) in respect of loans made to subsidiaries, following an assessment of expected credit losses. Further details are set out in note 11.

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 2021, the parent company recognised royalty revenue of £nil (2020: £nil).

6. Income tax

	2021 £'000	2020 £'000
Current tax		
R&D tax credit relating to prior years	(161)	–
R&D tax credit relating to current year	(706)	(595)
Current tax total	(867)	(595)
Income tax total	(867)	(595)

Due to the availability of losses incurred in the year, there is no charge to corporation tax. The parent company recognised £867,000 for R&D tax credits in 2021 (2020: £595,000). The estimated receivable of £595,000 included at 31 December 2020 was £161,000 lower than the cash received from the final claim submission during 2021.

The actual tax credit for the current and previous year is lower (2020: lower) than the theoretical amount that would arise using the tax rate for the reasons set out in the following reconciliation.

	2021 £'000	2020 £'000
Loss before income tax	(8,764)	(5,795)
Tax calculated at domestic tax rates applicable to losses	(1,665)	(1,101)
Tax effects of:		
Expenses not deductible for tax purposes	4	1
Impairment loss not deductible for tax purposes	376	335
Remeasurement of deferred tax for changes in tax rates	(2,424)	(700)
Unutilised tax losses	3,709	1,465
R&D tax credit	(867)	(595)
Income tax total	(867)	(595)

In 2021 and 2020, the impairment loss not deductible for tax purposes represents the loss allowance recorded on loans due from subsidiaries as described in note 11.

The applicable tax rate was 19% (2020: 19%).

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

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 2021 (2020: £nil).

	2021 £'000	2020 £'000
Unrecognised – Deferred tax assets		
Trading losses	(10,100)	(7,354)
Share based payments	(304)	(321)
Total	(10,404)	(7,675)

At 31 December 2021, the parent company had a net unrecognised deferred tax asset of £10,100,000 (2020: £7,354,000) arising from trading losses since incorporation. No recognition of the net deferred tax asset has been made at 31 December 2021 (2020: £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 (2020: 100%) is anticipated to remain available indefinitely to offset against future taxable trading profits.

The unrecognised deferred tax asset of £304,000 (2020: £321,000) 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.

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

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

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 2021 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.

The parent company also decided not to reverse prior year impairments at 31 December 2021, despite the market capitalisation value exceeding the carrying amount of its investments in subsidiaries, as concluded that the current commercial position of the Velocys group, without any significant new customer contracts or additional investors into the reference projects outweighed the other positive aspects considered.

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

		2021		2020
	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	9,121	9,121
Capital contributions - in respect of share based payments	123	123	–	–
At 31 December	9,244	9,244	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
Rula Developments (Immingham) Ltd*	England and Wales	Development of land	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 LLC**	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

Notes

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

10. Leases

Please refer to note 19 of the consolidated financial statements for further information on the accounting policy followed.

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

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

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

Lease liability	2021 £'000	2020 £'000
Current	94	–
Total	94	–

Payments relating to short-term leases and to leases of low value assets are recognised as they fall due as an expense in the income statement. These expenses were £nil (2020: £nil).

The total cash outflow in respect of leasing activity was £48,000 (2020: £nil).

11. Trade and other receivables

	2021 £'000	2020 £'000
Prepaid costs	413	175
Other receivables	68	–
Amounts due from group undertakings	18,769	9,630
Total	19,250	9,805

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 £1,981,000 was recognised in relation to the loans made to subsidiaries (2020: £1,756,000). At 31 December 2021 the total loss provision was £3,864,000 (2020: £1,883,000).

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 38.62% (2020: 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.

Notes to the financial statements of Velocys plc (continued)

12. Trade and other liabilities: current

	2021 £'000	2020 £'000
Trade payables	224	95
Accruals	917	246
Total	1,141	341

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 (2020: 60 days or less).

	2021 £'000	2020 £'000
Other liabilities	344	–

Other liabilities of £344,000 at 31 December 2021 comprised amounts owed by the parent company in respect of corporate insurance policies covered by a financing arrangement.

13. 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.

	2021 £'000	2020 £'000
Assets		
Cash and cash equivalents	15,395	6,870
Trade and other receivables excluding non-financial assets	481	175
Loans receivable from subsidiaries	18,769	9,630

	2021 £'000	2020 £'000
Liabilities		
Trade and other payables excluding non-financial liabilities	224	95
Other liabilities	344	–

14. Called up share capital

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

15. Commitments

The parent company has no capital commitments (2020: nil).

16. Employee benefit expense

Short-term employee benefits

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

Pensions

The parent company operates various defined contribution pension schemes for its employees. The amount charged to the income statement in respect of pension contributions is the contributions payable in the year. Differences between contributions payable and contributions actually paid are accrued. The parent company has no further obligations once the contributions have been paid.

Employees

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

	2021 number	2020 number
Administration	6	3
Total average headcount	6	3

Their aggregate remuneration comprised the following items.

	2021 £'000	2020 £'000
Wages and salaries	1,656	1,090
Short-term non-monetary benefits	48	26
Social security contributions and similar taxes	206	204
Defined contribution pension costs	91	48
Share-based payments granted to directors and employees of the parent company	170	37
Total remuneration	2,171	1,405

Share-based payments relate to directors and employees of Velocys plc only. For details of the charge applicable to subsidiaries of the parent company, please refer to note 9.

In 2021 and 2020, 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.

Directors' remuneration

Details of the remuneration paid to directors of the parent company are provided in the Directors' remuneration report on pages 33 to 34.

Auditors' remuneration

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

17. Related parties

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

18. Post financial position events

Disclosures in respect to post financial position events are provided in note 32 to the consolidated financial statements.

Directors, secretary and advisors to the Company

Registered office
Velocys
Magdalen Centre
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OX4 4GA

Velocys plc registration no. 05712187

Directors

Philip Holland	(Non-Executive Chairman)
Henrik Wareborn	(Chief Executive Officer)
Andrew Morris	(Chief Financial Officer)
Darran Messem	(Senior Independent Director)
Ann Markey	(Non-Executive Director)
Tom Quigley	(Non-Executive Director)

Company secretary
Jeremy Gorman

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Notes

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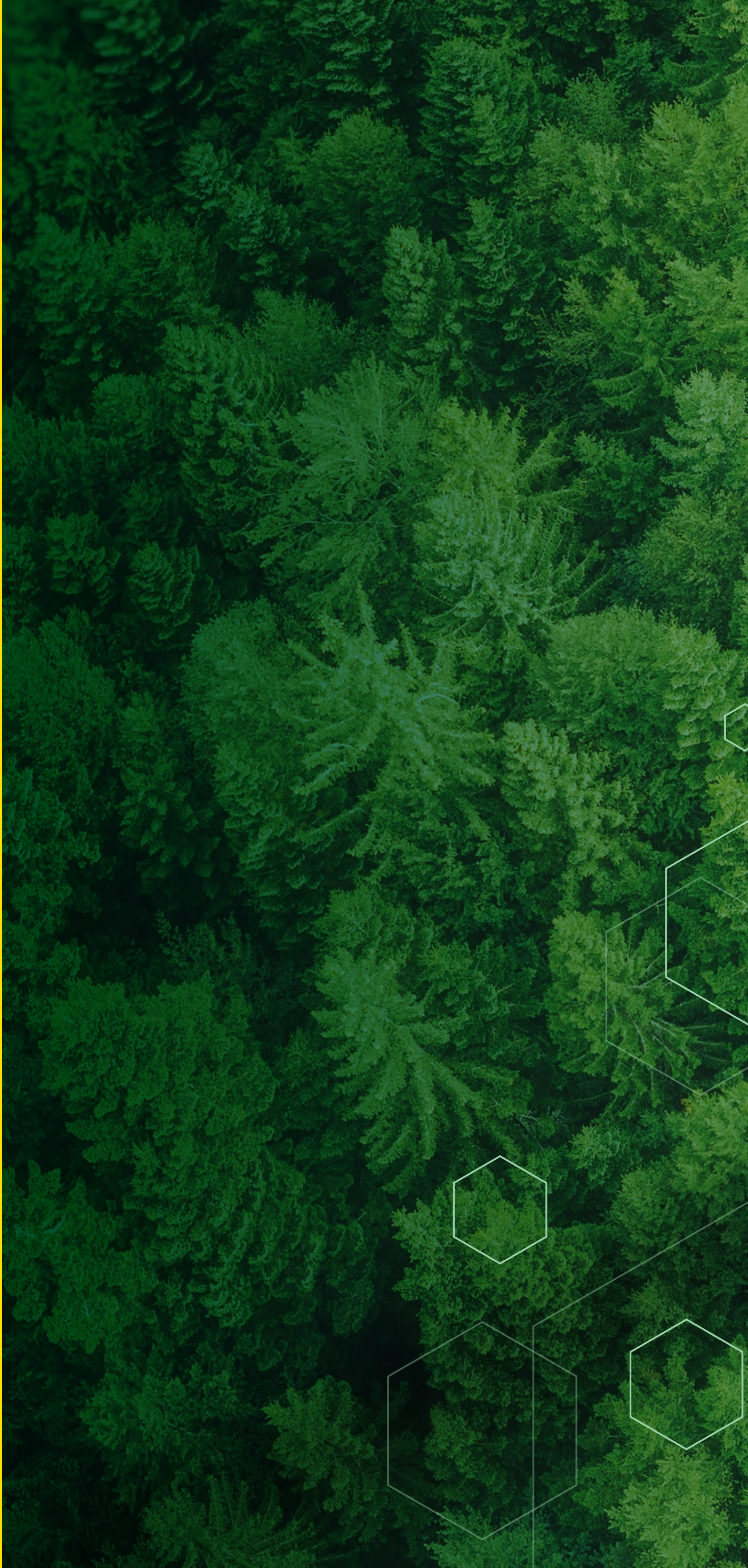

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