VELOCYS

News release

Velocys plc

("Velocys" or "the Company")

18 September 2019

Interim results for the six months ended 30 June 2019

Velocys plc (VLS.L), the sustainable fuels technology company, is pleased to announce its interim results for the six months ended 30 June 2019.

Henrik Wareborn, CEO of Velocys, said:

"2019 has been a positive year for the Company. The demand for our Fischer Tropsch technology is growing on both sides of the Atlantic, which is why we have concentrated our efforts on project development and reactor manufacturing. These last six months have seen Velocys accelerate the move from concept to commercialisation - transitioning from research, development and testing, to focusing on commercial scale client delivery and operational excellence.

We have delivered our first reactor and all catalyst charges to our client in Oregon (Red Rock Biofuels) and the manufacturing of the remaining reactors is advancing. We are now focusing all our efforts on commercial delivery - for our client in Oregon and for our two projects in Mississippi, USA (Bayou Fuels) and Immingham, UK (Altalto).

None of this would have been possible without the recent support of our shareholders new and old along with the hard work and dedication that all our staff have put in to achieve the Company's goals. I would like to make a personal thanks to Dr Pierre Jungels for his guidance of the Company over the years that he has been Chairman and wish him well for the future."

Operational Highlights:

- Good progress has been made in delivering the sustainable fuels strategy.
- The Bayou Fuels Mississippi project has been transformed during the period by changing the power source to solar and including CO2 capture, which has reduced the project's carbon intensity score, improving project returns significantly, creating an attractive differentiator for investment into this project.
- The Immingham UK project has completed all pre-FEED work (Front End Engineering and Design) and has submitted its planning application. Additional funding from our partners in the project, received post period end, has ensured that we can reach the FEED stage in the next few months.
- Delivery of one reactor and all the catalyst to our client Red Rock Biofuels in the period. Manufacture of the remaining reactors is underway.

Financial Highlights:

- The commercial scale FT reactor demonstration in Oklahoma was safely and comprehensively concluded with complete decommissioning of the site, return of the two FT reactors to Velocys and sale of certain assets and return of the site to one of our JV partners for a total of 3.3m, which is now fully paid, with £1.7m paid during the period and £1.6m post period end.
- Revenue of £22,000 (H1 2018: £392,000).
- Operating loss of £5.2m, exceptional items of credit of £0.6m (H1 2018: £11.0m before exceptional items of £14.3m).
- Cash* at period end £1.3m (31 December 2018: £7.0m).
- H1 2019 cash outflow £5.1m (H1 2018: cash inflow £8.9m).
- Fund raise of approximately £7m (before expenses) in July 2019 (post-period end).

- Complementing commitments received by the Company from the Altalto Immingham waste-to-sustainable-fuels project's strategic partners, British Airways and Shell, of £2.8 million in total in July 2019 (post-period end).

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

Outlook

- The revised, truly renewable focused profile of the Bayou Fuels Mississippi project is aiding discussions with partners and investors to progress to the next stage of development.
- Advancing the Immingham UK project into FEED with industry partners Shell and British Airways and towards financial close in 2021 is a key objective.
- Delivery of the remaining reactors in 2019 to our client Red Rock Biofuels is underway.

For further information, please contact:

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

www.velocys.com

Chairman’s statement
Pierre Jungels, CBE

The new Executive team has re-positioned the Company to take advantage of the macro-trend of decarbonisation of fuels for heavy transport, for which we are uniquely well positioned. Velocys’ two principal waste-to-fuels projects, our Altalto Immingham facility in the UK and our Bayou Fuels Mississippi facility in the US have taken crucial steps forward, gaining support from our industrial partners as well as support from new and existing shareholders.

The Altalto project will be Europe’s first commercial scale waste-to-fuels plant and will take household waste as feedstock to produce sustainable fuel for aircraft, whereas the Bayou Fuels project will produce sustainable fuels for heavy duty trucks and aviation from waste woody biomass.

The support from shareholders enabled Velocys to carry out a successful fundraising of £7 million in July, underpinned by a further £2.8 million from Shell and International Airlines Group, the owner of British Airways.

If we are to limit damaging global temperature rises and reach net zero emissions by the middle of the century, innovative and scalable solutions are urgently required. The recent fundraise was evidence of the growing appetite to invest in solutions that seek to overcome this challenge, by curbing carbon and particulate emissions in hard-to-decarbonise sectors.

I am proud that Velocys has developed a proven, scalable technology for producing substantially lower-carbon and lower-emission heavy transportation fuels after recently completing commercial scale demonstrations in the US. Our facilities will take solid feedstocks - either waste woody biomass in the US or household and commercial waste in the UK - and convert it into sustainable fuel that can be used without adaptation in conventional combustion engines. Unlike agricultural plant based feedstocks, this will not require land use change. Indeed, the UK facility will divert waste from landfills so will have wider environmental benefits.

As indicated at the Annual General Meeting, after thirteen years as Chairman and Director of Velocys, I will be retiring in December of this year. After proper due diligence we have decided to appoint Phil Holland, at present our Senior Independent Director (SID), as Chairman of the Board when I step down. Phil brings with him to the Chairman's position 40 years of experience in managing the front-end development, design/construction and start-up of major capital projects worldwide ensuring Velocys remains focused on capital discipline, and successful delivery of its US and UK projects. Darran Messem will become Chair of the Audit and Risk Committee with immediate effect, and Sandy Shaw will return to Chair the Remuneration Committee and, in December, also become the SID when Phil Holland becomes Chairman.

Having been Chairman for the past thirteen years, I have seen Velocys develop, refine and demonstrate a technology solution that society will not be able to do without in a net zero world. We are now ready for full-scale commercialisation and production at a time when demand for our solution, from Government, industry and the wider public, is growing.

I wish all of the Executives and you as the shareholders all the very best in these exciting times and would like to thank you for your support over the years.

Dr Pierre Jungels
Chairman

Chief Executive's Report

Henrik Wareborn

2019 has been a positive year for Velocys. The demand for our Fischer Tropsch technology is growing on both sides of the Atlantic, which is why we have concentrated our efforts on project development and reactor manufacturing. These last six months have seen Velocys accelerate the move from concept to commercialisation - transitioning from research, development and testing and on to commercial scale client delivery and operational excellence.

We have achieved this with zero hours lost due to Health, Safety, Social and Environmental (HSSE) issues. This is of paramount importance to me, which is why I have overseen a review and renewal of all our safety procedures as well as ensuring full Board disclosure of even the slightest near-miss incidents.

Looking at client service, in Oregon, USA we have delivered our first reactor and all catalyst charges to our client Red Rock Biofuels (RRB) and the manufacturing of the remaining reactors is advancing. We are now focusing all our efforts on commercial delivery - for our client in Oregon and for our two projects in Mississippi, USA and Immingham, UK.

In Mississippi, we have concentrated our efforts on driving down the carbon intensity of the project while significantly improving the expected returns. The facility will be supplied by 100% fossil-free feedstock in the form of waste woody biomass, the power supply will be 100% renewable, and the CO_2 emissions from our conversion process will be captured and sequestered.

The pre-Front End Engineering Design (FEED) learnings from this project were applied to the Altalto Immingham waste-to-fuels project, which significantly reduced the time and cost of the pre-FEED work, culminating in a validated planning application announced on 20 August. We expect to move into the FEED stage of the project in the next few months, subject to planning approval and funding commitments.

None of this would have been possible without the dedicated support from our shareholders. As noted by the Chairman, we were delighted by the strong demand for our recent Placing on the London AIM market, in which existing and new shareholders participated extensively. In particular, we were pleased to invite major Venture Capital Trust (VCT) and Enterprise Investment Scheme (EIS) investors in this round.

We have completely re-designed our website, have decided to relocate our UK headquarters back to Oxford (in the Oxford Science Park) later this year and significantly upgraded our investor and public relations functions. Thanks to this, the announcement on the Immingham planning application attracted global media attention from the Sydney Morning Herald, to The New York Times, to Forbes in prominent editorial coverage.

Given the transition we have made from concept to commercialisation, and the expenditure this has entailed, we are naturally not cash-flow positive. However, cash-inflows from operations and the recent successful Placing have been significant. In addition, our Administrative Expenses have reduced by more than half compared with H1 2018. For more detail on this, please see the Finance report below.

I continue to be impressed on a daily basis by the dedication and ingenuity of the transatlantic Velocys team, formed from two research organisations in the USA and UK over ten years ago.

There are undoubtedly challenges ahead but I am confident that activity so far this year has laid the firm foundations which will enable Velocys to become a global leader in delivering technology solutions for the next generation of sustainable transport fuels.

Financial review

Revenues

The company recognised revenue of £22,000 (H1 2018: £392,000). The revenue was primarily from the provision of engineering services and Catalyst lease revenue related to the ENVIA agreement.

On 1 January 2018, the Company adopted IFRS 15. In accordance with guidance in IFRS 15, most of the revenues of RRB will be recognised in future periods, as discussed in notes 5 and 12 to the accounts.

Operating losses were £5.2m before exceptional items of credit of £0.6m (H1 2018: £11.0m before exceptional items of £14.3m). The decrease in operating loss is principally the result of a decrease in administrative expenses period over period.

Expenses and income
Administrative expenses before exceptional items reduced to £5.2m before exceptional items of credit £0.6m (H1 2018: £11.2m before and £25.5m after exceptional items). The reduction is principally the result of reduced spending on overhead, consulting costs and the development of the Mississippi Biorefinery Project.

Other expenses were (£29k) (H1 2018: income £75k). This was principally the net result of a sale of equipment of £82k from the Oklahoma Project and lease interest expense (£111k) associated with IFRS 16.

Assets and cash
The net assets of the Company were £628,000 at 30 June 2019 (31 December 2018: £5.4m). The decrease was principally the result of cash spent on the development of the Immingham UK waste-to-sustainable-fuels project; testing and analysis work on the Fischer-Tropsch reactors and the catalyst from the recently completed full-scale demonstration run in Oklahoma; completing the development capital fund-raising and initial stages of development of the Front End Engineering Design (FEED) for the Mississippi Biorefinery Project.

The Company used £5.8m cash in operations (H1 2018: £6.0m) principally in the pursuit of the commercial projects as set out above, which has driven the net loss of the Group. The Company had a £295,000 increase in deferred revenue (H1 2018: £3.8m) principally as a result of the delivery of catalyst and a reactor in accordance with the agreements with Red Rock Biofuels LLC. The Company continues to carefully manage its underlying cost base and spend prudently on the implementation of its strategic projects.

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

Impairment
No impairment was recorded as of 30 June 2019. In June 2018, the Company recorded an impairment of £14.3m with respect to the loan to ENVIA and £0.9m with respect to the investment into ENVIA.

Fundraises
- No fund raises were completed during the period to 30 June 2019.
- In July 2019 Velocys raised a total of £7.0m (before expenses). We have received strong support from existing and new institutional investors.
- This complements the commitments by Shell and British Airways to co-fund the remaining pre-FEED project work to bring the Immingham UK waste-to-sustainable-fuels project to the same state of pre-FEED completion as our Mississippi Biorefinery Project.

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

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

Henrik Wareborn
Chief Executive Officer

Consolidated income statement

for the six months ended 30 June 2019

	Note	**6 months ended 30 June 2019 (unaudited) £'000** Before exceptional items	**6 months ended 30 June 2019 (unaudited) £'000** Exceptional items (note 3)	**6 months ended 30 June 2019 (unaudited) £'000** Total	6 months ended 30 June 2018 (unaudited) £'000 Before exceptional items	6 months ended 30 June 2018 (unaudited) £'000 Exceptional items (note 3)	6 months ended 30 June 2018 (unaudited) £'000 Total
Revenue	5	22	-	22	392	–	392
Cost of sales		(8)	-	(8)	(281)	–	(281)
Gross profit		14	-	14	111	–	111
Administrative expenses		(5,203)	577	(4,626)	(11,191)	(14,281)	(25,472)
Other (expense)/income		(29)	-	(29)	75	–	75
Operating loss		(5,218)	577	(4,641)	(11,005)	(14,281)	(25,286)
Share of loss of investments accounted for using the equity method		-	-	-	(1,674)	(861)	(2,535)
Loss before net finance (costs)/income		(5,218)	-	(4,641)	(12,679)	(15,142)	(27,821)
Finance income	6	20	-	20	2,792	–	2,792
Finance costs		-	-	-	(7)	–	(7)
Net finance income		20	-	20	2,785	–	2,785
Loss before income tax		(5,198)	577	(4,621)	(9,894)	(15,142)	(25,036)
Income tax credit		286	-	286	170	–	170
Loss for the financial year attributable to the owners of Velocys plc		(4,912)	577	(4,335)	(9,724)	(15,142)	(24,866)
Loss per share attributable to the owners of Velocys plc							
Basic and diluted loss per share (pence)	7	(1.20)		(1.06)	(2.94)		(7.53)

Consolidated statement of comprehensive income

for the six month ended 30 June 2019

	6 months ended 30 June 2019 (unaudited) £'000	**6 months ended 30 June 2019 (unaudited) £'000**	**6 months ended 30 June 2019 (unaudited) £'000**	6 months ended 30 June 2018 (unaudited) £'000	6 months ended 30 June 2018 (unaudited) £'000	6 months ended 30 June 2018 (unaudited) £'000
	Before exceptional items	Exceptional items (note 3)	Total	Before exceptional items	Exceptional items (note 3)	Total
Loss for the year	(4,912)	577	(4,335)	(9,724)	(15,142)	(24,866)
Other comprehensive (expense)/income						
Items that may be reclassified to the income statement in subsequent periods						
Foreign currency translation differences	(475)	–	(475)	(1,695)	–	(1,695)
Total comprehensive (expense)/income for the year attributable to the owners of Velocys plc	(5,387)	577	(4,810)	(11,419)	(15,142)	(26,561)

Consolidated statement of financial position

as at 30 June 2019

	Note	**30 June 2019 (unaudited) £'000**	31 December 2018 (audited) £'000
Assets			
Non-current assets			
Intangible assets	8	499	357
Property, plant and equipment		2,940	1,819
Trade and other receivables	9	-	281
		3,439	2,457
Current assets			
Inventories	10	2,842	1,438
Trade and other receivables	9	3,119	4,404
VAT tax asset		160	862
Cash and cash equivalents		1,278	6,964
		7,399	13,668
Total assets		10,838	16,125
Liabilities			
Current liabilities			
Trade and other payables		(765)	(3,018)
Borrowings		(145)	(289)
Other liabilities	11	(3,283)	(2,092)
Deferred revenue	12	(4,554)	(579)
		(8,747)	(5,978)
Non-current liabilities			
Lease liability	14	(509)	(90)
Deferred revenue	12	(954)	(4,634)
		(1,463)	(4,724)
Total liabilities		(10,210)	(10,702)
Net assets		628	5,423
Capital and reserves attributable to owners of Velocys plc			
Called up share capital		1,913	1,913
Share premium account		182,208	182,208
Merger reserve		369	369
Share-based payments reserve		16,158	16,143
Foreign exchange reserve		3,076	3,551
Accumulated losses		(203,096)	(198,761)
Total equity		628	5,423

The financial statements were approved by the Board of directors and authorised for issue on 18 September 2019. They were signed on its behalf by:

Henrik Wareborn
Chief Executive Officer

Company number 05712187

Consolidated statement of changes in equity

for the six months ended 30 June 2019

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Convertible loan/'other' reserve £'000	Share-based payment reserve £'000	Foreign exchange reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 2018	1,468	149,964	369	9,421	16,085	2,654	(167,550)	12,411
Loss for the year	–	–	–	–	–	–	(30,583)	(30,583)
Other comprehensive expense								
Foreign currency translation differences	–	–	–	–	–	897	–	897
Total comprehensive expense	–	–	–	–	–	897	(30,583)	(29,686)
Transactions with owners								
Share-based payments – value of employee services	–	–	–	–	58	–	–	58
Proceeds from share issues	243	22,397	–	–	–	–	–	22,640
Convertible loan notes	180	8,820	–	(9,000)	–	–	–	–
Interest on convertible loan note	22	1,027	–	(421)	–	–	(628)	-
Total transactions with owners	445	32,244	–	(9,421)	58	–	(628)	22,698
Balance at 1 January 2019	1,913	182,208	369	–	16,143	3,551	(198,761)	5,423
Loss for the year	–	–	–	–	–	–	(4,335)	(4,335)
Other comprehensive expense								
Foreign currency translation differences	–	–	–	–	–	(475)	–	(475)
Total comprehensive expense	1,913	182,208	369	–	16,143	3,076	(203,096)	613
Transactions with owners								
Share-based payments – value of employee services	–	–	–	–	15	–	–	15
Total transactions with owners	–	–	–	–	15	–	–	15
Balance at 30 June 2019	1,913	182,208	369	–	16,158	3,076	(203,096)	628

Consolidated statement of cash flows

for the six months ended 30 June 2019

	Note	6 months ended 30 June 2019 (unaudited) £'000	6 months ended 30 June 2018 (unaudited) £'000
Cash flows from operating activities			
Operating loss		(4,335)	(25,036)
Depreciation and amortisation	8	344	137
Loss on disposal of intangible assets		-	422
Impairment of assets		-	15,142
Impairment of loan to associate ENVIA	9	-	-
Amortisation of leased inventory		-	33
Share-based payments		15	15
Changes in working capital (excluding the effects of exchange differences on consolidation)			
Trade and other receivables		(255)	(1,511)
Trade and other payables		(322)	1,125
Altalto Liability	11	(1,143)	-
Deferred revenue	12	295	3,827
Inventory		(693)	(310)
Cash consumed by operations		(6,094)	(6,156)
Tax credits received		286	170
Net cash used in operating activities		(5,808)	(5,986)
Cash flows from investing activities			
Purchase of property, plant and equipment		(453)	(63)
Purchase of intangible assets	8	(211)	(136)
Payment from/(loan to) associate ENVIA		1,681	(3,773)
Equity investment in ENVIA	9	-	1,674
Interest received	6	20	-
Net generated from/(cash used) in investing activities		1,037	(2,298)
Cash flows from financing activities			
Proceeds from issues of shares and convertible loan notes		-	17,322
Interest paid		(101)	(5)
Principle element of lease payments		(124)	-
Repayment of borrowings		(144)	(131)
Net cash (used in)/generated from financing activities		(369)	17,186
Net (decrease)/increase in cash and cash equivalents		(5,140)	8,902
Cash and cash equivalents at beginning of year		6,964	2,070
Exchange movements on cash and cash equivalents		(546)	(2,310)
Cash and cash equivalents at end of period		1,278	8,662

Notes to the unaudited interim financial statements

For the six months ended 30 June 2019

1. General information, basis of preparation and accounting policies

Velocys plc operates through a number of subsidiaries in the UK and the US, and collectively they are referred to in these unaudited interim financial statements as the “Company” or “Velocys”, with Velocys plc as “Velocys plc” or the “parent company”.

The unaudited interim financial statements have not been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (IFRSs as adopted by the EU), IFRS Interpretations Committee Interpretations, or the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the IAS Regulation. They do not include all the statements required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at 31 December 2018.

Accounting policies

The unaudited interim financial statements have been prepared using the same accounting policies adopted in the Company’s financial statements for the year ended 31 December 2018, except as described below.

One new standard has been adopted for the first time for the current period, IFRS 16 *“Leases”*. The Company has updated its accounting policies to reflect the impact of this standard, which has not resulted in a restatement of prior period comparatives.

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

Judgements and estimates

In preparing these unaudited interim financial statements, the significant judgements made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were as stated within the consolidated financial statements for the year ended 31 December 2018, except for IFRS 16 *“Leases”.* See note 14.

Going concern

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

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

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

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

- Strategic investment of development capital into both the Mississippi biorefinery and Immingham UK waste-to-renewable jet fuel projects.
- Placement of Company ordinary shares, which may occur within the next twelve (12) months.
- Additional third-party licence sales, such as the Red Rock Biofuels project.

The Directors are confident that the funding required for the Company and Velocys plc to continue as a going concern will be raised and have therefore prepared the financial statements on a going concern basis.

However, as at the date of approval of the unaudited interim financial statements no additional funding is committed beyond the £2.8m additional investment into the Immingham UK waste-to-renewable jet fuel project by our partners BA and Shell and the £7m fundraise announced and received in August 2019. Should additional funding not be secured, the Company would not be a going concern. As such, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern.

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

Accounting developments
The Company has applied IFRS 16 *"Leases"* for the first time for the annual reporting period commencing 1 January 2019.

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use leased item) and a financial liability to pay rents are recognised. The only exceptions are short-term and low-value leases. The impact of the adoption of IFRS 16 is further detailed in Note 14.

2. Publication of non-statutory accounts
The unaudited interim financial statements presented in this document have not been audited or reviewed and do not constitute Group statutory accounts as defined in section 434 of the Companies Act 2006. Group statutory accounts for the year ended 31 December 2018 were approved by the Board of Directors on 14 May 2019 and delivered to the Registrar of Companies. The comparative figures for the year ended 31 December 2018 have been derived from the statutory accounts for that year. The auditors' report on those accounts, which was not modified, drew attention to the adequacy of the disclosure made in the financial statements concerning Velocys' ability to continue as a going concern, under section 498(2) or (3) of the Companies Act 2006.

3. Exceptional items
Items that are 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 of Directors to monitor and measure the underlying performance of the Company are classified as exceptional operating items. Exceptional operating items are included within the appropriate consolidated income statement category but are highlighted separately in the notes to the financial statements.

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

	6 months ended 30 June 2019 (unaudited) £'000	6 months ended 30 June 2018 (unaudited) £'000
Administrative expenses:		
ENVIA loan provision	-	(14,281)
Reversal of deferred revenue from ENVIA	577	
	577	(14,281)
Impairment in carrying value of equity accounted associate	-	(861)
	577	(861)
Total	577	(15,142)

4. Segmental information
<u>Business segments</u>
At 30 June 2019 the Company is organised as a world-wide business comprising a single segment.

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

	6 months ended 30 June 2019 (unaudited) £'000	6 months ended 30 June 2018 (unaudited) £'000
Europe	-	134
Americas	22	247
Asia Pacific	-	11
Total revenue	22	392

Revenue recognised during the six months ended 30 June 2019 is related to catalyst leasing and engineering services.

5. Revenue

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

Determining whether the services provided are considered distinct performance obligations 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 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 is allocated to the respective performance obligations based on relative transaction prices and is recognised as services are delivered to the customer or in some instance, as when the catalyst is leased, revenue is recognised over the estimated life of the catalyst. Revenue is measured as the amount of consideration expected to be received in exchange for the services delivered.

Revenue is recognised when the Company satisfies a performance obligation by transferring promised goods or services to a customer. Otherwise, the sales income related to sales of catalyst will be recognised as the performance obligations are satisfied. Revenue from engineering services is earned on a time and materials basis and is recognised as the work is performed.

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. In 2018, there is one contract that has been assessed as a combined performance obligation and it was determined that none of these criteria are met. As such, all consideration received has been deferred and revenue will be recognised when the final project is completed and control is transferred to the customer.

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

	6 months ended 30 June 2019 (unaudited) £'000	6 months ended 30 June 2018 (unaudited) £'000
FT reactor, catalyst and licence	-	247
Engineering services	22	145
Total	22	392

6. Finance income

	6 months ended 30 June 2019 (unaudited) £'000	6 months ended 30 June 2018 (unaudited) £'000
Interest income on bank deposits	20	23
Interest on loan to associate	-	533
Foreign exchange gains	-	2,236
Total	20	2,792

In 2018, the Company stopped recognising interest on loan to associate as a result of the impairment of the investment in ENVIA.

7. 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.

	6 months ended 30 June 2019 (unaudited)	6 months ended 30 June 2018 (unaudited)
Loss attributable to owners of Velocys plc (£'000s)	(4,335)	(24,866)
Weighted average number of ordinary shares in issue ('000)	410,423	330,323
Basic and diluted loss per share (pence)	(1.06)	(7.53)

8. Intangible assets

Patents, licences and trademarks

Patents and trademarks are recorded at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over a period of 20 years, which is their estimated useful economic life. Residual values and useful lives are reviewed annually and adjusted if appropriate. In the period to 30 June 2019, the Company did not abandon any non-core patents (H1 2018: £422,000 was recorded as a loss on disposal).

Software

Purchased software is recorded at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over its estimated useful life of three years.

Impairment

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

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

Were the fair value of the business to change in the coming 12 months, due to an increase or further decrease in the market capitalisation of Velocys plc, the impairment disclosed in this note would be reversed or the Company's assets would be further impaired accordingly. The Company did not impair its intangibles for the six months ended 30 June 2019. The table below presents a rollforward of intangible assets.

6 months ended 30 June 2019 (unaudited)	Goodwill £'000	In-process technology £'000	Patents, licence and trademarks £'000	Software £'000	Total £'000
Cost					
At 1 January 2019	7,398	23,681	1,580	96	32,755
Additions	–	–	206	–	206
Foreign exchange movement	–	–	5	–	5
At 30 June 2019	7,398	23,681	1,791	96	32,966
Accumulated amortisation and impairment					
At 1 January 2019	7,398	23,681	1,223	96	32,398
Charge for the year	–	–	67	–	67
Foreign exchange movement	–	–	2	–	2
At 30 June 2019	7,398	23,681	1,292	96	32,467
Net book amount					
At 30 June 2019	–	–	499	–	499

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

9. Trade and other receivables

Trade receivables represent assets that are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest. Other receivables consist of vendor deposits, deferred costs associated with an ongoing project or tax receivables from VAT refunds or R&D Tax credits. Loan receivable represents the outstanding loan and related interest associated with the loan to ENVIA. The interest receivable associated with the ENVIA loan is calculated using the effective interest rate method. The Company's trade receivables and loan receivable are classified and measured at amortised cost.

	30 June 2019 (unaudited) £'000	31 December 2018 (audited) £'000
Trade and other receivables – non-current	-	281
Trade and other receivables - current	1,326	930
Loan receivable	1,793	3,474
Total	3,119	4,685

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 expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. 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.

Under the general approach, the Company recognises a loss allowance on either a 12-month ECL or lifetime ECL. IFRS 9 prescribes three stages related to impairments. In stage 1, a 12 month ECL is recorded as a result of probability of default possible within the next 12 months. In stage 2, a lifetime ECL is recorded if a loan's credit risk has significantly increased since initial recognition and is not considered low. In stage 3, a lifetime ECL is recorded if a loan's credit risk increases to the point where it is considered credit-impaired. The changes in loss allowance balances are recognised in profit and loss as an impairment gain or loss. For credit exposure where there have not been significant increases in credit risk since initial recognition, a 12-month ECL is required. For credit exposure where there have been significant increases in credit risk since initial recognition, a lifetime ECL is required.

As required by IFRS 9, the Company determined that the ENVIA receivable at 1 January 2018 was credit-impaired (stage 3) based on management's view of the current and expected circumstances, requiring the Company to calculate a lifetime ECL. Based on the analysis performed, an adjustment of £2,274,000 was made to reflect the lifetime expected credit loss against this receivable. At 31 December 2018 a further review of the IFRS 9 ECL analysis for its loan with ENVIA was performed. Based on the 2018 year end ECL analysis, the company recorded an additional impairment on a lifetime ECL basis of £10,067,000.

Presented below is the loan receivable balance as at 30 June 2019.

	Amortised Costs (unaudited) **£'000**
1 January 2019	3,474
Payments received against loan	(1,681)
30 June 2019	**1,793**

Impairment losses are presented in administrative expenses in the consolidated income statement.

10.Inventories

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

	30 June 2019 (unaudited) £'000	31 December 2018 (audited) £'000
Raw materials and consumables	1,824	1,043
Work in progress	599	-
Finished goods	419	395
Total	2,842	1,438

The Company had no impairments related to inventory for the period ending 30 June 2019. In the period ended 30 June 2019, the Company reversed the 2017 impairment of an inventory reactor in the amount of £311,000. This reactor was sold to Red Rock Biofuels in the period and recorded in deferred revenue.

11.Other liabilities

Other liabilities include the following:

- Development funding received from industry partners and the UK Department for Transport related to the next stage of the Immingham UK waste to jet project, £952k at 30 June 2019 (31 December 2018: £2.1m).
- The current portion of lease liabilities in accordance with IFRS 16, £412k, at 30 June 2019 (31 December 2018: nil).
- Accruals related to internal compensation and purchases of £1.9m at June 30, 2019 (31 December 2018: £1.8m).

12.Deferred revenue

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

£'000	**Catalyst**	**Reactor**	**License**	**Total**
At 1 January 2018	1,238	-	-	1,238
Contract liabilities incurred	1,334	1,949	1,199	4,482
Revenue recognised in the period	(507)	-	-	(507)
At 31 December 2018	2,065	1,949	1,199	5,213
Contract liabilities incurred	369	526	-	895
Revenue recognised in the period	(600)	-	-	(600)
At 30 June 2019 (unaudited)	1,834	2,475	1,199	5,508

Contract liabilities consist of deferred revenue as a result of instances in which the Company's receives payments received prior to the satisfaction of the performance obligation. Revenue is allocated to the respective performance obligations based on relative transaction prices and is recognised as services are delivered to the customer or in some instance, as when the catalyst is leased, revenue is recognised over the estimated life of the catalyst.

13. Movement in equity

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 (restated) £'000	Convertible loan/'other' reserve £'000
At 1 January 2018	146,860	1,468	149,964	9,421
Proceeds from share issues	243,463	243	22,397	-
Convertible loan notes	18,000	180	8,820	(9,000)
Interest on convertible loan notes	2,100	22	1,027	(421)
At 31 December 2018	410,423	1,913	182,208	-
At 30 June 2019 (unaudited)	410,423	1,913	182,208	-

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

For the six months ended 30 June 2019, the Company did not issue any shares or complete any fundraises, which would have resulted in the issuance of shares. However, the Company did complete a fundraise in the second half of 2019. See note 16.

14. Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Company's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

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

The Company's leasing activities

The Company leases various offices and equipment. Rental contracts are typically made for fixed periods of 3 to 8 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments: fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the incremental borrowing rate. The incremental borrowing rate represents the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of leases with a value less than £5,000.

Extension and termination options are included in certain property and equipment leases. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor. Approximately 0% of the total lease payments made in 2019 were optional.

Adjustments recognised on adoption of IFRS 16
On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 20%.

At 1 January 2019, the Company didn’t have any leases that would be classified as finance leases.

	(unaudited) **£’000**
Operating lease commitments disclosed as at 31 December 2018	1,592
Discount based on incremental borrowing rate at 1 January 2019	(505)
(Less): short term/low value leases recognised on a straight line basis as expense	(42)
Lease liability recognised as at 1 January 2019	**1,045**
Of which are:	
Current liabilities	412
Non-current liabilities	633
	1,045

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

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Property, plant and equipment – increase by £1,045,682
- Right-of-use assets – increase by £0
- Deferred tax assets – increase by £0
- Prepayments – decrease by £0
- Borrowings – decrease by £0
- Lease liabilities – increase by £1,045,682

15. Post period end events
On 15 July 2019, Velocys plc announced a gross fundraise of £7 million (£6.6 million net of fees and expenses). This constitutes a firm placing of 233,333,335 Ordinary shares at a placing price of 3 pence per share with certain existing shareholders and new institutional investors, representing 36.2% of the enlarged Ordinary share capital.

Net proceeds of the capital raising are being used to:

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

The placing complements commitments received by the Company from the Immingham UK waste-to-sustainable-fuels project’s strategic partners, British Airways and Shell, of £2.8 million in total.