News release

Velocys plc

("Velocys" or "the Company")

15 May 2019

Final results for the year ended 31 December 2018

Velocys plc (VLS.L), the advanced biofuels company, is pleased to announce its final audited results for the year ended 31 December 2018.

Highlights

- Transformed and focused the management team with the appointment of Henrik Wareborn as the new CEO and Andrew Morris as the new CFO in November 2018 while eliminating the roles of CCO and COO.
- Restructured the rest of the Board with the appointment of Philip Holland and Darran Messem as Non-Executive Directors (post period end) with Philip taking on the role as Senior Independent Director and Darran as Chairman of the Remuneration Committee. Dr Pierre Jungels is announcing his intention to step down as Company Chairman towards the end of this calendar year. Velocys has a well prepared succession plan in place for the Board and further announcements will be made in due course.
- Streamlined and de-risked our two advanced biofuel projects focusing on flow sheet standardisation, other synergies and advancing both projects to FEED-ready stage:
- Natchez, Mississippi biorefinery:
    - Completed the Environmental Assessment required under the National Environmental Policy Act.
    - Completed ~1,000 hours of integrated demonstration of wood-chips to fuels with TRI at Durham, North Carolina at a rate of four tonnes per day of dry Southern Yellow Pine wood chips allowing us to demonstrate biofuel yields from representative feedstock and actual syngas composition.
    - Completed final product upgrade pilot run over 12 weeks at Haldor Topsoe in Denmark generating final product samples for further aviation fuel blending studies with our strategic partners this year. Also generated drop-in diesel and blended infrastructure compliant gasoline.
    - Detailed due diligence and value-added engagement by potential strategic partners continues.
    - The project has been further optimised to achieve negative lifecycle carbon emissions and reduce overall environmental impact whilst maintaining 20 million gallons of sustainable aviation fuel and gasoline blendstock production per year from 2024.
- Immingham, UK waste to jet fuel biorefinery:
    - Partner funding of £4.5m secured during the year for current stage of the project, which we are developing in collaboration with British Airways and Shell.
    - Project awarded £434k from the UK Department for Transport under the Future Fuels for Flight and Freight Competition (F4C).
    - A 100 acre site secured on the South Humberside for the project with ideal infrastructure for feedstock and utilities supply as well as product off-take.

    - The project has been optimised to produce 15 million gallons per year of sustainable aviation fuel eligible for double credits as an advanced development fuel under RTFO.
    - Engagement with the UK Government to secure sufficient and stable policy support continues for the project to reach financial close.
- Red Rock Biofuels, Oregon biorefinery (RRB):
    - Wood chips to sustainable fuel biorefinery commenced construction. Notice to proceed issued to Velocys. £4.5 million out of a total £9.2m has been received.
    - Post period end amended contract to accelerate delivery of the first of four reactors and first four charges of catalyst, reducing the firm commitment for reactors from six to four but RRB will retain an option to acquire reactors 5 and 6 until the end of 2020 at existing contract price.
- ENVIA, Oklahoma, FT joint venture:
    - Generation of Renewable Identification Numbers (RINs) announced in January 2018, with RINs verified in March 2018 having provided auditable data of the carbon intensity under the approved pathway whilst running two Velocys FT reactors in parallel.
    - Independent verification and confirmation that the reactor leak detected in May 2018 was caused by a fault in the ancillary coolant system and was not a result of any flaw in the core Velocys technology.
    - Plant continued to operate on one reactor until September to prove out resilience of the second FT reactor after ancillary cooling system had been re-designed.
    - In September 2018, the JV partners deemed the technology demonstration had been successfully completed.
    - ENVIA obtained $2.3m insurance settlement in relation to the cooling system damage to the FT reactor in late 2018 and early 2019.
    - Post period end: A successful conclusion of the ENVIA JV with Velocys reaching agreement with the JV partners on rights transfer and payment due to Velocys of £3.26m with £1.66m received on signing agreement and remainder following site clearance; the two FT reactors returned to Velocys for post-demonstration analysis.
- 2018 Financial results:
    - Revenue of £0.7m (2017: £0.8m).
    - Operating loss of £18.6m, before exceptional items of £10.1m (2017: £21.4m before exceptional items of £29.7m).
    - Cash* at the year-end £7.0m (31 December 2017: £2.1m).
    - Fundraises of approximately £18.4m (before expenses) in January 2018 and £6m (before expenses) in July 2018.
    - Impairment of £0.8m of the ENVIA investment in associate and an impairment of the ENVIA loan note of £10.1m.
- The Company confirms that it has adopted the QCA Corporate Governance Code, which highlights its continued focus on good governance and maintaining a high degree of trust and transparency with its shareholders and other stakeholders.

  * Defined as cash and cash equivalents.

Henrik Wareborn, CEO of Velocys, said:
"Velocys is now in the possession of our two full-scale commercial FT micro-channel reactors with a combined cumulative runtime of more than 5000 hours from the recently concluded ENVIA technology demonstration in Oklahoma. These two reactors have operated under a wide range of conditions with a relatively challenging feedstock. We have collected a vast amount of performance data from this demonstration allowing us now to further optimise for resilience, volume and product quality directly benefiting our two full-scale renewable fuels projects under development in Natchez, Mississippi and Immingham, UK as well as our first licensee; Red Rock Biofuels in Oregon.

Furthermore, we have conducted extensive post-operative analysis on the reactors and catalyst from ENVIA at our technology centre in Ohio allowing us to demonstrate to partners, such as strategic investors and insurers, the robustness of the Velocys technology offering. This also contributes greatly to the de-risking of the Mississippi and Immingham projects and supports a broad range of project finance approaches.

Red Rock Biofuels broke ground in June 2018. In February 2019 we agreed to accelerate deliveries of Velocys FT reactors and catalyst which included one reactor and 4 charges of catalyst delivered from inventory and the remaining 3 reactors are now in the process of being manufactured and delivered during the balance of 2019.

Velocys is within reach to offer a tangible solution to support decarbonisation of air travel, a critical sector supporting the global economy with very stringent fuel criteria and few alternatives to hydrocarbon fuels. The aviation sector needs renewable fuels which meet the complex standards of fossil fuels for engine safety and performance reasons. I believe Velocys is well positioned to create significant shareholder value already in 2019 from our unique position at the cutting edge of fossil-free aviation.

I would like to thank all my colleagues at Velocys for their continued commitment and relentless efforts during the intensive phase of technology demonstration and project development during 2018.

I would also like to take this opportunity to thank Dr Pierre Jungels for his continued support to me and the team during the changes that were made to the senior management of the Company and the Board in the last quarter of 2018 as well as for his significant contribution to the Company over the last thirteen years"

For further information, please contact:

Velocys Henrik Wareborn, CEO	+44 1235 838 621
Numis Securities (Nomad and joint broker) Alex Ham Stuart Skinner Tom Ballard	+44 20 7260 1000
Canaccord Genuity (Joint broker) Henry Fitzgerald-O'Connor Ben Griffiths	+44 20 7523 8000
Camarco (Financial communications & PR) Billy Clegg Ben Woodford Tom Huddart	+44 20 3757 4983

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

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Chairman’s statement

Dr. Pierre Jungels, CBE

Introduction

Velocys is now an advanced biofuels company. This transition was completed thanks to the technical proof point reached upon completion of the commercial scale demonstration runs of our two Velocys Fischer-Tropsch (FT) reactors at ENVIA, together with the strong commercial progress at both the Immingham, UK waste to jet fuel plant and the Natchez Mississippi biorefinery projects, significant fundraising in support of the above and an overall strengthening of the Executive team as well as the Board.

The ENVIA plant in Oklahoma has shown that Velocys’ micro-channel FT reactors and catalysts work well in a range of conditions, inside the operating envelope, and generate high quality renewable fuels with low carbon intensity evidenced by the award of D3 RIN credits.

Velocys will now leverage all the learnings and experience from running full cycle commercial operations at ENVIA into the two commercial scale biorefinery projects in Natchez and Immingham in collaboration with our financial and technology partners.

The demand for sustainable jet fuel could not be more obvious. Velocys is in a unique position to offer a de-risked, scalable and executable solution to convert solid waste feedstocks into sustainable jet fuel with a minimal carbon intensity both in the US and in the UK subject to continued shareholder and strategic partner support.

Management and Board

In November 2018, we were delighted to welcome Henrik Wareborn as Velocys’ new CEO and Executive Director. Henrik’s expertise includes capital markets advisory, commodities trading, fund raising and commodity finance from Goldman Sachs, BP Plc and Natixis SA. Henrik holds an MBA from INSEAD and a BA in economics from the Stockholm School of Economics. The Board considers that his skill set and experience and his knowledge, background and approach, are exactly what is demanded as Velocys moves into the financing and commercialisation of both the project in Mississippi and the UK waste to jet fuel project in Immingham.

In addition, we were pleased that Andrew Morris, who had been a Non-Executive Director and Chairman of the Company’s Audit and Risk Committee since June 2017, accepted the position as Velocys’ full time Chief Financial Officer, remaining on the Board as an Executive Director. Andrew has considerable experience in the power and renewable energy, energy from waste and biofuels sectors, and has significant involvement in financing and business development for AIM companies, SMEs and private equity backed organisations. Andrew’s appointment as Velocys’ Chief Financial Officer has assisted the Board significantly in managing the Company’s finances.

We were also pleased to announce the appointment of two new independent Non-Executive Directors to the Board with effect 1 January 2019. Philip Holland and Darran Messem both have significant experience in industries, companies and projects with direct relevance to Velocys. Philip has been appointed as a member of the Audit & Risk, and Remuneration and Nomination Committees, and has also been appointed as Senior Independent Director, and Darran has been appointed as Chairman of the Remuneration Committee, and as a member of the Audit & Risk and Nomination Committees. The Board has already been able to benefit from their respective contributions in the relatively short time since their appointments.

David Pummell and Paul Schubert resigned as Directors in December 2018 and John Tunison stepped down as interim Chief Financial Officer in September 2018. On behalf of the Board I thank them all for their contributions to the Company.

On behalf of the Board, I want to express our deep gratitude to Julian West who stepped down from the Board as a Non-Executive Director in February 2018 after several years of dedicated service to Velocys as Senior NED.

In line with recent Corporate Governance linked to the tenure of Chairmen, I am announcing that, since I have served as Chairman of Velocys from 2006, I plan to step down as Company Chairman towards the end of this calendar year. Velocys has a well prepared succession plan in place for the Board and further announcements will be made in due course after appropriate due diligence and shareholder consultations.

Fundraising

In January 2018, approximately £18.4m (before expenses) was raised through a Placing and Open Offer, principally to help fund the development of our Mississippi biorefinery project, and to secure strategic investment into it. We included an open offer element in this fundraising round to enable all eligible shareholders an opportunity to participate. Our existing major shareholders again demonstrated their considerable support, but at the same time we were pleased by our ability to extend our shareholder base.

We completed a further fundraise of £6m (before expenses) in July 2018, primarily through the support of existing shareholders, who we thank for their continued support. Net proceeds of the Placing were used predominantly to: (i) strengthen the Company's balance sheet; (ii) fund our portion of the pre-Front End Engineering Design ("FEED") development costs for the Immingham UK waste to jet fuel project; (iii) allow us to complete our commercial scale reactor demonstration run at ENVIA; and (iv) support the process for on-boarding one or more strategic investors to provide development funding for our biorefinery projects.

In November 2018, we served conversion notices to the holders of the £9 million nominal convertible loan notes which had been issued on 1 June 2017, converting these plus accrued interest into an aggregate of 20,100,000 new ordinary shares at a conversion price of £0.50 per share.

The Board recognises that additional funding is required to reach final close for both our biorefinery projects. Further details are given in the Financial review and note 2.

Outlook

Velocys has transformed from its research and development (R&D) focus to providing a solution for supplying advanced biofuels at commercial scale using abundant feedstocks causing no land-use change.

The Velocys team in Harwell (UK), Ohio and Texas (US) has driven this pivot into advanced biofuels fuels with an unyielding commitment to quality, safety and excellence. Our biorefinery technology integration is designed to perform over many years at high yields in order to offer a sound return to investors and a significant decarbonisation impact.

The next phase of the business during 2019 will be to conclude all pre-Front End Engineering Design (FEED) for our two projects and reach final agreements with our strategic partners on the funding of the two-phase FEED to allow both projects to reach Financial Close during 2020.

Chief Executive's report

Henrik Wareborn

2018 was the year investors grasped the full opportunity of decarbonisation. After many years of chronic oversupply and low prices, the European Emissions Allowance market sprung back to life. The EUA credits were among the best performing financial assets in the world in 2018, as the imperative need of decarbonisation finally started to dawn on corporate risk managers as well as financial investors.

Velocys is on the cusp of providing a scalable decarbonisation solution for the challenging sector of high energy density renewable fuels such as sustainable jet fuel for aviation, road diesel for heavy goods transport, and marine fuels for the global shipping industry.

Our two biorefinery projects under development in Immingham, UK and Natchez, US will each process over 300 thousand tonnes of dry solid waste feedstock per year (from municipal/commercial & industrial waste and forest residues respectively), converting them into 60-80 million litres of renewable fuels per year with a carbon intensity between zero and 30% of that of comparable fossil fuels.

The pathway from gasification of solid waste feedstocks, through synthesis gas clean-up and Velocys' Fischer Tropsch synthesis into FT liquids for final upgrading to ultra clean fuels is compatible with existing infrastructure and using well proven upgrading technology. The Velocys FT reactors completed a commercial scale production run in Oklahoma during the year, producing in total 1.6 million litres of fuels, which means that all components of our biorefinery technology integration in Immingham and Natchez have now been demonstrated and financed at commercial scale.

If global policymakers are serious about the Paris Agreement targets, a rising price on carbon is inevitable. The limited capacity in the atmosphere to store more CO_2 without adverse effects, is the ultimate scarce resource and will be priced accordingly. The economics of our US biorefinery project benefit from strong policy support, especially in California via the Low Carbon Fuel Standard incentivising decarbonisation of road and aviation fuels. Likewise, our UK biorefinery project benefits from the new Renewable Transport Fuel Certificates for development fuels, awarding double credits for advanced sustainable aviation fuels from waste feedstocks.

During the year, we undertook a rigorous evaluation of a range of suitable sites for our Immingham UK project which concluded in the announcement of the site in November. The site scored very highly on all our criteria such as feedstock supply, rail, road, port and pipeline access as well as its location in the "Energy Estuary" of the South Humberside with a wealth of highly skilled workers in this field. We have commenced the planning and permitting process with a public consultation opening shortly.

The Natchez, MS biorefinery project completed planning, permitting and pre-FEED engineering successfully and is currently under due diligence by strategic partners invited to the formal funding process for the final FEED stage.

The two projects have benefitted from the application of a standardised technical flow sheet as far as possible given the slightly different nature of the feedstock and other local conditions. The volume of dry feedstock, liquid products produced and expected returns are therefore now very similar for both projects thanks to the similar level of aggregate policy support afforded to each project.

We are grateful for all the strategic and technical support we have received during the year from British Airways and Shell as we work to prove this new sustainable pathway for scalable advanced biofuels which do not induce land use change.

We are also pleased to be supporting Red Rock Biofuels (RRB) as technology licensors for their biorefinery project in Oregon converting woody biomass to sustainable jet fuel and diesel. RRB announced FID in early 2018 and gave Velocys notice to proceed to deliver four FT reactors and four charges of catalyst for their project to be delivered in 2019. Velocys has provided a site-licence to RRB to operate up to six Velocys FT reactors at the site and we offer engineering services for the FT island including commissioning and start-up services in due course.

It was also very satisfying to instigate the repurposing of the ENVIA plant into a Renewable Natural Gas (RNG) plant as recently announced, post-period. For this purpose, one of our JV partners has acquired a number of assets from ENVIA for a payment of $4.15 million to Velocys and the two Velocys FT reactors have been transferred back to Velocys upon the completed demonstration run at that site. In return, Velocys has agreed to lift its liens on all ENVIA assets. Velocys will also receive any surplus cash from ENVIA post decommissioning as well as any potential additional payments from the sale of remaining assets from ENVIA not required for the RNG repurposing.

Velocys takes the safety and well-being of its employees very seriously and has created a passionate and holistic culture of safety, health and environmental responsibility that extends from the CEO to all employees. Each employee is encouraged to actively participate in and take responsibility for their own safety and health by participating in Job Safety Analyses (JSA), Process Hazard Analyses (PHA), and Design and Process Failure Mode and Effects Analyses (DFMEA/PFMEA) with the goal to proactively prevent incidents. To this end, Velocys has only had one lost-time accident since September 2000, which occurred in July 2018. In 2018, two near misses were reported and investigated and one more near miss occurred in early 2019.I want to conclude by thanking our shareholders, employees and public sector stakeholders for all the determined support during these years of research and product development required to launch such a transformational technology in support of the global cause of decarbonising aviation and heavy duty land and sea transport.

Financial review

Revenues
Velocys plc is managed as a single operation and referred to as “the Company” throughout the strategic report. “Company” results represent the Consolidated results and Velocys plc results are for the parent company only. The Company recognised revenue of £0.7m (2017: £0.8m). The revenue was primarily the result of the lease of catalyst related to the ENVIA project. Gross Profit was flat at £0.4m (2017: £0.4m).

On 1 January 2018, the Company adopted IFRS 15. In accordance with guidance in IFRS 15, the revenues from Red Rock Biofuels will be recognised in future periods, as discussed in notes 3 and 14 to the accounts.

Operating losses were £18.6m, before exceptional items of £10.1m related to impairments (2017: £21.4m before exceptional items of £29.7m). The reduction of the operating loss is principally the result of reducing administrative expenses as set out below.

Expenses and income
Administrative expenses before exceptional items reduced to £19.1m and £29.1m after exceptional items (2017: £21.9m before and £53.4m after exceptional items). The reduction before exceptional items comes from a number of elements including the lower number of staff employed by the Company after the closure of the UK R&D facility which was completed in June 2017 and the completion of the work on the project development of the Mississippi project in Q3 2018.

The reduction in administrative expenses after exceptional items is largely due to the scale of the impairment taken in 2017 which has meant that no further impairment is required in 2018, other than for the loan to ENVIA, our associate company. The Board of ENVIA decided to suspend operations in September 2018 (see Impairment on assets and investments below), as a result of this decision there is little chance of the Company receiving repayment of the loan, so it has been fully impaired by £10.1m (2017: £nil).

Other income before exceptional items during the year consisted of the sale of assets and a return on deposit adding to £0.04m, (assets sold in 2017 associated with the closure of the UK R&D facility provided other income of £0.2m). No further income was recorded in 2018. Exceptional items were recorded in 2017 of £1.75m relating to the increased equity share and voting rights in ENVIA following the exit of NRG. No such exceptional items were recorded in 2018.

Assets and Cash

The net assets of the Company were £5.4m which is down from the £14.7m in 2017. This decrease was largely due to the impairment of the Company's loan and investment in ENVIA of £10.9m and the operating loss before exceptional items of £18.6m off-set by the £22.4m (net of expenses) raised from share issuances in January and August 2018.

The cash inflow to the Company in 2018 was £4.3m (2017: £16.0m cash outflow) principally being the net receipts of £23.0m after the two fund raises that were successfully completed during the year, less £6.3m cash used in investing activities and £12.4m used in operating activities. The Company continues to carefully manage its underlying cost base and spend prudently on strategy implementation.

The company incurs much of its expenses in US 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 dollars.

Impairment on assets and investments

In September 2018 the Board of Directors of ENVIA decided to suspend operations and undertake a review of strategic alternatives at the ENVIA plant. As a result of this decision there is little chance of us receiving full repayment of the loan. The Company recorded an impairment of £10.1m with respect to the loan to ENVIA and £0.9m with respect to the investment as a result of an increase in the credit risk arising from the Board of Directors of ENVIA's decision. In addition, the Company analysed the total value of the Company's equity as at 31 December 2018 and determined that despite a decrease in share issue price, no further impairment was warranted on top of the impairment recorded in 2017.

With respect to the impairment assessment in 2017, the recoverable amount was determined based on the fair value less costs of disposal ("fair value"), by reference to the total value of the parent Company's equity (i.e. market capitalisation). For 2017 the Company recorded an impairment of £31.5m against a range of assets, including goodwill and in-process technology. The Board has assessed whether any additional impairment is required in 2018 and based on consideration of operational performance and market capitalisation at 31 December 2018, we do not consider there to be any impairment required in 2018.

There has been no change in the Board's assessment of the long-term potential of the assets. The impairments made, except for Goodwill, could be reversed in future if there is a change in the estimates used to determine the asset's recoverable amount, particularly in relation to the share price of the parent Company. At 31 December 2018, the Board did not consider there has been a change in circumstances that would justify reversal of the impairments recorded in 2017.

The parent Company has both equity and debt investments in its subsidiaries, which are compared to the recoverable amount. On this basis, the impairment assessment indicated that the carrying value of the investments in subsidiaries was higher than the recoverable amount in 2017, determined by fair value less costs of disposal. As a result, an impairment of £33.3m (2017: £57.3m) was recognised. This impairment was eliminated on consolidation.

ENVIA
The loans and investment into ENVIA have been impaired in this year's accounts due to the suspension of activities at the site and the laying off of nearly all the staff. The Company completed negotiations in April 2019 with one of the remaining partners and the landfill gas supplier to sell some of the assets and remove the Company's liens associated with its loans to ENVIA from the Company and release the site to the landlord so that they can pursue their own business from the site in return for a payment of £3.26m. This will be referred collectively as the ENVIA settlement and is considered a best outcome from the loans made of £15.8m and the positive results from the activity with ENVIA including all the operating and management data secured from the operations.

Fundraises
In January 2018 Velocys raised a total of approximately £18.4m (before expenses) via a firm placing and open offer. Both funding elements were strongly supported by existing major shareholders. Over half of the firm placing shares were placed with the Company's existing shareholders and the rest with a number of significant new shareholders.

In July 2018 Velocys secured additional funding of £6.0m (before expenses). The net proceeds of both capital raisings have been used predominantly for:
- strengthening the Company's balance sheet, providing for working capital and central operating costs;
- funding the Company's portion of the pre-FEED development costs for its Immingham UK waste to jet fuel project; and
- funding the continuing development costs for the Natchez, Mississippi biorefinery project before securing one or more strategic investors.

Via our two placings, we have seen a mix of both strong support from our existing shareholders, for which we are grateful, as well as investment from new shareholders who demonstrated significant support for our strategy.

Future funding
The financial statements have been prepared on the going concern basis, which assumes the Company will have sufficient funds available to enable it to continue to trade for the foreseeable future. The cash forecast includes the following assumptions: (i) the receipts from the ENVIA settlement; (ii) the completion of the current stage of the UK waste to jet fuel project prior to securing funding for the next stage of development to financial close; (iii) the completion and delivery of reactors to our customer Red Rock Biofuels; (iv) the continued process of on-boarding one or more strategic investors to provide the final stages of development funding for the Mississippi biorefinery project; (v) the current overhead cost run rate.

The Company's plan is to secure investment by one or more strategic partners into either or both of the UK Immingham project and the Mississippi project in the second half of 2019. The Company will assess its cash requirements from these activities and determine at what stage it needs to raise additional funding during the second half of 2019 or early 2020.

This funding may be achieved from one or a combination of a capital raising (including the possibility of a placement of ordinary shares within the next 12 months) or the realisation of certain assets; selling additional technology licences (such as the licence recently sold to Red Rock Biofuels); and selling non-core intellectual property.

The Board will be proposing a Special Resolution at the forthcoming Annual General Meeting to approve the disapplication of the pre-emption rights equal to 15% of the issued share capital, compared to the level of 10% which has been approved by shareholders in previous years. This may assist the Company in securing additional working capital in the year to come.

Following financial close of one or both of the projects in late 2020 or early 2021, the Company's funding requirements will depend on the final structure of each of the biorefinery project consortiums and on the Company's strategy to develop and fund other projects.

As such, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company and Velocys plc's ability to continue as a going concern.

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

Consolidated income statement

for the year ended 31 December 2018

	Note	**2018** £'000 Before exceptional items	**2018** £'000 Exceptional items (note 2)	**2018** £'000 Total	2017 £'000 Before exceptional items	2017 £'000 Exceptional items (note 2)	2017 £'000 Total
Revenue	3	664	-	664	759	–	759
Cost of sales		(273)	-	(273)	(409)	–	(409)
Gross profit		391	-	391	350	–	350
Administrative expenses		(19,060)	(10,067)	(29,127)	(21,930)	(31,486)	(53,416)
Other income	5	36	-	36	163	1,750	1,913
Operating loss		(18,633)	(10,067)	(28,700)	(21,417)	(29,736)	(51,153)
Share of loss of investments accounted for using the equity method	9	(1,717)	(848)	(2,565)	(1,784)	(2,736)	(4,520)
Loss before net finance (costs)/income		(20,350)	(10,915)	(31,265)	(23,201)	(32,472)	(55,673)
Finance income	4	993	-	993	730	–	730
Finance costs		(628)	-	(628)	(399)	–	(399)
Net finance income		365	-	365	331	–	331
Loss before income tax		(19,985)	(10,915)	(30,900)	(22,870)	(32,472)	(55,342)
Income tax credit		317	-	317	739	–	739
Loss for the financial year attributable to the owners of Velocys plc		(19,668)	(10,915)	(30,583)	(22,131)	(32,472)	(54,603)
Loss per share attributable to the owners of Velocys plc							
Basic and diluted loss per share (pence)	6	(5.75)		(8.95)	(15.19)		(37.47)

Consolidated statement of comprehensive income

for the year ended 31 December 2018

	2018 £'000 Before exceptional items	**2018** £'000 Exceptional items (note 2)	**2018** £'000 Total	2017 £'000 Before exceptional items	2017 £'000 Exceptional items (note 2)	2017 £'000 Total
Loss for the year	(19,668)	(10,915)	(30,583)	(22,131)	(32,472)	(54,603)
Other comprehensive (expense)/income						
Items that may be reclassified to the income statement in subsequent periods						
Foreign currency translation differences	897	-	897	(4,411)	–	(4,411)
Total comprehensive (expense)/income for the year attributable to the owners of Velocys plc	(18,771)	(10,915)	(29,686)	(26,542)	(32,472)	(59,014)

Consolidated statement of financial position

as at 31 December 2018

	Note	**2018** £'000	(Restated) 2017 £'000
Assets			
Non-current assets			
Intangible assets	7	357	755
Property, plant and equipment	8	1,819	1,801
Trade and other receivables	10	281	10,284
Investment in associate	9	-	2,580
		2,457	15,420
Current assets			
Inventories	11	1,438	388
Trade and other receivables	10	4,404	416
Current income tax asset		862	546
Restricted cash	12	-	620
Cash and cash equivalents	12	6,964	2,070
		13,668	4,040
Total assets		16,125	19,460
Liabilities			
Current liabilities			
Trade and other payables	13	(3,018)	(2,898)
Borrowings		(289)	(268)
Other liabilities		(2,092)	-
Deferred revenue	14	(579)	(618)
		(5,978)	(3,784)
Non-current liabilities			
Trade and other payables		(90)	(98)
Borrowings		-	(273)
Deferred revenue	14	(4,634)	(620)
		(4,724)	(991)
Total liabilities		(10,702)	(4,775)
Net assets		5,423	14,685
Capital and reserves attributable to owners of Velocys plc			
Called up share capital		1,913	1,468
Share premium account		182,208	149,964
Merger reserve		369	369
Convertible loan/"other" reserve		-	9,421
Share-based payments reserve		16,143	16,085
Foreign exchange reserve		3,551	2,654
Accumulated losses		(198,761)	(165,276)
Total equity		5,423	14,685

Consolidated statement of changes in equity

for the year ended 31 December 2018

	Called up share capital £'000	Share premium account (Restated) £'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 2017	1,438	149,275	369	–	15,843	7,065	(110,252)	63,738
Loss for the year	–	–	–	–	–	–	(54,603)	(54,603)
Other comprehensive expense								
Foreign currency translation differences	–	–	–	–	–	(4,411)	–	(4,411)
Total comprehensive expense	–	–	–	–	–	(4,411)	(54,603)	(59,014)
Transactions with owners				–				
Share-based payments – value of employee services	–	–	–	–	242	–	–	242
Proceeds from share issues	30	689	–	–	–	–	–	719
Convertible loan notes	–	–	–	9,000	–	–	–	9,000
Interest on convertible loan note	–	–	–	421	–	–	(421)	–
Total transactions with owners	30	689	–	9,421	242	–	(421)	9,961
Balance at 31 December 2017	1,468	149,964	369	9,421	16,085	2,654	(165,276)	14,685
Adjustment on adoption of IFRS 9	–	–	–	–	–	–	(2,274)	(2,274)
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 31 December 2018	1,913	182,208	369	–	16,143	3,551	(198,761)	5,423

Consolidated statement of cash flows

for the year ended 31 December 2018

	Note	2018 £'000	(Restated) 2017 £'000
Cash flows from operating activities			
Operating loss		(28,700)	(51,153)
Depreciation and amortisation		659	2,893
Gain on bargain purchase for ENVIA		-	(1,750)
Loss on disposal of property, plant and equipment		-	83
Loss on disposal of intangible assets	7	627	152
Impairment of assets	2	-	31,486
Impairment of loan to associate ENVIA	2	10,067	-
Impairment of inventory		-	340
Impairment of assets under construction		-	31
Amortisation of leased inventory		-	92
Share-based payments		58	242
Changes in working capital (excluding the effects of exchange differences on consolidation)			
Trade and other receivables		(220)	358
Trade and other payables		(1,125)	914
Other liabilities		2,092	-
Deferred revenue	14	5,213	-
Inventory		(1,050)	-
Cash consumed by operations		(12,379)	(16,312)
Tax credits received		-	1,047
Net cash used in operating activities		(12,379)	(15,265)
Cash flows from investing activities			
Purchase of property, plant and equipment		(509)	(34)
Purchase of intangible assets		(349)	(335)
Loan to associate ENVIA		(5,531)	(9,788)
Interest received		74	62
Net cash used in investing activities		(6,315)	(10,095)
Cash flows from financing activities			
Proceeds from issues of shares and convertible loan notes		25,172	10,160
Costs of issuing shares and convertible loan notes		(1,904)	(443)
Interest paid		(13)	(17)
Repayment of borrowings		(252)	(308)
Net cash generated from financing activities		23,003	9,392
Net increase/(decrease) in cash and cash equivalents		4,309	(15,968)
Cash and cash equivalents at beginning of year	12	2,070	18,124
Exchange movements on cash and cash equivalents		585	(86)
Cash and cash equivalents at end of year	12	6,964	2,070

Notes to the consolidated financial statements

1. 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 results shown for the years ended 31 December 2018 and 31 December 2017 are audited. The consolidated financial information contained in this announcement does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts of the Company in respect of the financial year ended 31 December 2018 were approved by the Board of directors on 14 May 2019 and will be delivered to the Registrar of Companies in due course. The report of the auditors on those accounts was unqualified and did not contain an emphasis of matter paragraph nor any statement under Section 498 of the Companies Act 2006.

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

The preparation of financial statements to conform to IFRS requires the use of certain critical accounting estimates and the exercise of management's judgement in the application of the Company's accounting policies. Areas involving a higher degree of judgement or complexity, and areas where assumptions and estimates are significant to the financial statements are referenced in notes 3, 7, 9 and 10.

Going concern

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

The Company expects to develop its projects, in particular, progressing the Mississippi biorefinery and Immingham UK waste to 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 and Velocys plc over the next 12 months from the date of approval of the financial statements.

The forecasts show that the Company and Velocys plc require additional external funding within the 12-month forecast period to be able to continue as a going concern. 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 and Immingham biorefinery projects, which are expected during 2H 2019.
- 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 and have therefore prepared the financial statements on a going concern basis.

However, as at the date of approval of the financial statements no additional funding is committed. Should additional funding not be secured, the Company and Velocys plc would not be a going concern. As such, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company and Velocys plc's ability to continue as a going concern.

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

Accounting developments

New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2018:

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- *Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2*
- *Transfers to Investment Property – Amendments to IAS 40*
- *Interpretation 22 Foreign Currency Transactions and Advance Consideration*

The company also elected to adopt the following amendments early:

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

IFRS 9 *Financial Instruments*

The Company and its subsidiaries adopted International Financial Reporting Standard 9, *Financial Instruments* ("IFRS 9"), on 1 January 2018. IFRS 9 replaces the provisions of International Accounting Standard 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"), that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Company has elected to apply the limited exemption if IFRS 9 related to transition for classification and measurement, and impairment. Accordingly, the Company has not restated comparative period in the year of initial application.

IFRS 9 introduces principle-based requirements for the classification of financial assets, using the following measurement categories:

- Amortised cost
- Fair value through Other Comprehensive Income ("OCI") ("FVOCI") with cumulative gains and losses reclassified to profit or loss upon derecognition
- Fair value through profit loss ("FVPL")

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

All financial liabilities are measured at amortised cost, except for financial liabilities at fair value through profit or loss.

After initial recognition, an entity cannot reclassify any financial liability.

IFRS 9 also introduces a new impairment model, the expected credit loss ("ECL") model. This model applies to debt instruments measured at amortized cost or at FVOCI, as well as trade receivables. The Company applies the IFRS 9 simplified approach to measuring estimated ECL which uses a lifetime expected loss allowance for all trade receivables, and the general approach to measuring estimated ECL with respect to the ENVIA loan.

Under the simplified approach, the Company is not required to track changes in credit risk, but instead is required to recognize a lifetime ECL at all times for trade and other receivables that do not contain significant financing components.

Under the general approach, the Company will recognise a loss allowance on either a 12-month ECL or lifetime ECL. IFRS 9 prescribes three stages related to impairments. In stage 1, a 12month ECL is recorded as a result of probability of default are possible within the next 12 months. In stage 2, a lifetime ECL is recorded if a loans credit risk has significantly increased since initial recognition and is not considered low. In stage 3, a lifetime ECL is recorded if a loans credit risk increases to the point where it is considered credit impaired. The changes in loss allowance balances are recognised in the income statement 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.

At December 31, 2018, the following balance sheet items were impacted by the adoption of IFRS 9.

- short-term trade receivables, and
- the ENVIA loan.

IFRS 15 *Revenue from Contracts with Customers*

The Company and its subsidiaries adopted IFRS 15 *Revenue from Contracts with Customers* on 1 January 2018 on a full retrospective transition method. The comparative figures in the Company's audited financial statements for the year ended 31 December 2017 were not required to be restated as a result of the adoption of IFRS 15.

IFRS 15 introduces a five-step model which is applied to determine when to recognise revenue, and at what amount. The five steps consist of (i) identifying the customer, (ii) identifying all of the performance obligations within the contract, (iii) determine the transaction price, (iv) allocating the price to the performance obligations and (v) recognizing revenue as the performance obligations are fulfilled. Revenue is recognised when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognised either over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer.

Change in accounting policies

On 1 January 2018, the Company adopted IFRS 9 and performed an analysis of its trade receivables and loan receivables to determine if a provision should be recorded. The Company's loan receivable consisted of a loan to ENVIA.

	£'000
Opening balance at 1 January 2018 – IAS 39	10,284
Increase in loan receivable loss allowance recognized in impairment expense	(2,274)
Closing balance at 1 January 2018 – IFRS 9	8,010

The Company applied the simplified approach to providing an ECL prescribed by IFRS 9, which permits the use of the lifetime expected loss allowance for trade 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. To measure the expected credit losses, trade receivables were grouped based on shared credit risk and the days past due. Based on this ECL model, the Company did not record a loss allowance with respect to trade receivables as it was not material.

At 1 January 2018, the Company reviewed its loan to ENVIA in accordance with IFRS 9. The Company considered the credit worthiness of ENVIA and determined that the loan would be the equivalent of Ca-C rating using the Moody global long-term rating scale. The company considers historical loss rates for each category of customers, and adjusts for forward looking macroeconomic data where necessary. This aligns with managements expectation of a high credit risk. Based on this assessment, the Company calculated a Stage 3 ECL based on a lifetime probability of default. In the IFRS 9 ECL model, two scenarios were considered and individual weightings were assigned based on management's best estimate of current and future risks of the ENVIA plant. Based on the IFRS 9 ECL model, the Company recorded a loss allowance on a lifetime ECL basis of £2,274,000 in the Consolidated income statement.

In accordance with IFRS 9, the Company continued to assess the ENVIA loan for impairment throughout the reporting period. See note 10 for the year end ECL position.

2. Exceptional items

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

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

	2018 £'000	2017 £'000
Administrative expenses:		
Intangible assets impairment	-	(28,760)
Property, plant and equipment impairment	-	(2,185)
Inventories impairment	-	(541)
Impairment of loan receivable	(10,067)	-
	(10,067)	(31,486)
Impairment in carrying value of equity accounted associate	(848)	(2,736)
Other income:		
Gain on bargain purchase	-	1,750
	(848)	986
Total	(10,915)	(32,472)

Administrative expenses

During 2018, the Board of Directors of ENVIA announced its intentions to suspend operations. As a result of this decision, Velocys impaired its loan to associate. The Company has recorded an impairment of its loan to ENVIA of £10,067,000 (2017: nil).

At varying points during 2017, the carrying value of the Company's net assets exceeded the market capitalisation indicating a potential impairment at year end. This conclusion was supported by the fundraise in January 2018, which was discounted to 10p per share, and which prompted the share price to drop to 10p immediately afterwards. As a result, an impairment of £31.5 million was recorded against a range of assets, as described in note 7. The assets impacted by the impairment were Intangible assets, Inventories and Property, plant and equipment. Critical estimates and judgements are included in note 7.

Impairment in carrying value of equity accounted associate

The Company is required to assess, at the end of each reporting period, whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. During 2018, the Board of Directors of ENVIA announced its intentions to suspend operations. As a result of this decision, Velocys impaired its loan to associate (detailed above) and the investment in associate account. The Company has recorded an impairment of its investment in associate in the amount of £848,000 (2017: £2,736,000).

Other income
In September 2017, Velocys increased its equity share and voting rights at ENVIA following the exit of NRG from the joint venture, for no consideration. The voting rights for the three remaining joint venture members, including Velocys, were accordingly increased to 33% each. The increased interest in the associate has been acquired through an increase in an existing stake. Velocys applied the ‘cost approach’, whereby there is a requirement to assess the fair value of both the consideration and the net assets being acquired. The fair value of the net assets being acquired was determined by its value in use, assessed by the estimated future cash flows discounted to their present value using an appropriate pre-tax discount rate model. The Company has recorded a gain on bargain purchase of £1,750,000 in respect of this step acquisition during 2017 and no change has occurred with the Velocys shareholding in ENVIA during 2018. See note 9 for more information.

3. Revenue

The Company adopted IFRS 15 on 1 January 2018, using the full retrospective transition method. The comparative figures in the Company's audited financial statements for the year ended 31 December 2017 were not required to be restated as a result of the adoption of IFRS 15.

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. In 2018, there was no reactor or licence fee revenue. In instances in which catalyst is leased to the customer, sales income is recognised monthly over the term of the arrangement. 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.

	2018 £'000	2017 £'000
FT reactor, catalyst and licence	508	484
Engineering services	156	275
Total	664	759

FT reactor, catalyst and license revenue in the amount of £508,000 for the year ended December 31, 2018 consisted of lease revenue related to the ENVIA agreement (2017: £484,000).

4. Finance income

	2018 £'000	2017 £'000
Interest income on bank deposits	76	61
Interest on loan to associate	732	669
Foreign exchange gains	185	–
Total	993	730

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

5. Other income

Other income consists of items such as sales of fixed assets, contractual and legal settlements and any other operating income recognised outside of commercial activities. Other income derived from sales of fixed assets and non-commercial activities is recognised on an accruals basis. Legal settlements are recognised as income when a final judgement is received.

	2018 £'000	2017 £'000
Before exceptional items:		
Return on deposits	22	-
Sale of fixed assets	14	163
Total other income before exceptional items	36	163
Exceptional items (see note 2):		
Gain on bargain purchase	-	1,750
Total other income exceptional items	-	1,750
Total	36	1,913

6. 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.

	2018	2017
Loss attributable to owners of Velocys plc (£'000s)	(30,583)	(54,603)
Weighted average number of ordinary shares in issue	341,867,109	145,729,727
Basic and diluted loss per share (pence)	(8.95)	(37.47)

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 2018 and 2017 there were no other potentially dilutive instruments.

7. Intangible assets Significant accounting policies Cost or valuation and amortisation

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. Goodwill is not amortised. In the balance sheet at 1 January 2017, £5,445,000 of the Goodwill balance related to the acquisition of Velocys, Inc. in 2008 and £2,668,000 to the acquisition of Velocys Project Solutions, LLC (VPS) in 2014. The Goodwill balance was written down to nil in 2017 (see Impairment below).

In-process technology

In-process technology consists of purchased intangibles and capitalised development costs and arose from the acquisition of Velocys, Inc. and Velocys Project Solutions, LLC (VPS).

In respect of intangible assets acquired as part of a business combination, the Company recognises these as distinct from Goodwill provided, they are separable or arise from contractual or other legal rights, and their fair value can be measured reliably. Intangible assets are initially recognised at fair value, which is regarded as their cost. They are subsequently held at cost less accumulated amortisation and impairment losses.

Prior to 2017, amortisation was charged using the units-of-production method based on useful economic lives of the assets projected over future sales of 1,400 four-core reactors. Amortisation began in 2015 based on the manufacture of the first commercial reactors. From 1 January 2017, following an update to the Company's business model, whereby it is concentrating on the development of biorefineries rather than the licensing of technology to third parties, the expected pattern of consumption of the future economic benefits has been revised. The Company estimates that the total useful economic life of the asset is 20 years, from the completion of the first two reactors in August 2015. Amortisation is charged on a straight-line basis over the remaining estimated useful economic life of the asset, being 18.7 years from 1 January 2017 resulting in an increase of the amortisation charge for the year of £1,577,000. Subsequently in 2017, the Company fully impaired the In-process technology asset, as a result there was no amortization charge in 2018.

Research costs are recognised as an expense in the Income statement as they are incurred.

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 2018 and 2017. This resulted in a loss on disposal of patents of £627,000 (2017: loss of £152,000).

Customer contracts

Customer contracts are carried at cost less impairment losses. The customer contract value that had been fully impaired in 2015 related to an expected project development fee negotiated during the acquisition of VPS in 2014. Its value was contingent on achieving a final investment decision on the Ashtabula project in 2015, which did not happen. The customer contracts were written off in 2017.

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. Upon analysis performed at 31 December 2018, the Company determined that no reversal of prior year impairments was required or additional impairment required. This assessment also considered the operating performance of the Company during 2018 which included the ENVIA plant shutting down but progress being made on other projects, new funding obtained and customer agreements signed. This 2018 performance, including both negative and positive factors, was also not considered indicative of incremental impairment or reversal of previous impairment.

Critical estimates and judgements

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, a number of indicators of potential impairment. In 2018, the Company considered:

- At varying points during 2018, if the carrying amount of the Company's net assets exceeded Velocys plc's market capitalisation; and
- Significant decreases in the market price of the asset; and
- Significant adverse changes in the extent or manner in which an asset is being used.

Based on the 2018 analysis, the Company concluded that no impairment or reversal of previous impairment was required.

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

In 2017, the Company recorded an impairment of its intangibles. The Company considered that using a fair value less cost of disposal value of £33.1m, based on the share price of 10 pence from the equity raised on 15 January 2018 to the enlarged share capital, for the 31 December 2017 impairment assessment would imply that the combined business would be in excess of this at the date of the fundraise in January 2018, following the cash injection. The assessment reflected the decrease in the share price resulting from the January 2018 fundraise, and applied a per share value of 10p to the number of shares in issue at 31 December 2017. This gave a valuation of £14.7m and, a control premium was not applied, as most of the Company's significant investors were participating in the January 2018 fundraise at the discounted price. As a result of this fair value assessment, the Company recorded an impairment charge of £31.5m in 2017.

The method of allocation of the impairment in 2017 was as follows:

- Write down Goodwill to nil, resulting in an impairment of £7,398,000.
- The other assets in the CGU on a pro rata basis, based on the carrying amount of each asset in the CGU. However, within this allocation framework, each asset is reduced only to the highest of:
  - (i) Its fair value less costs of disposal, if measurable.
  - (ii) Its value in use, if this can be determined.
  - (iii) Nil.

This resulted in the following impairment allocation in 2017:

- In-process technology £20,610,000.
- Patents, licence and trademarks £752,000.
- Property, plant and equipment £2,185,000.
- Inventories £541,000.

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	7398	23,681	1,223	96	32,398

Net book amount						
At 31 December 2018		–	–	357	–	357

2017	Goodwill £'000	In-process technology £'000	Patents, licence and trademarks £'000	Customer contracts £'000	Software £'000	Total £'000
Cost						
At 1 January 2017	8,113	25,942	2,248	1,473	101	37,877
Additions	–	–	335	–	–	335
Disposals	–	–	(282)	–	–	(282)
Write-off of customer contracts	–	–	–	(1,473)	–	(1,473)
Foreign exchange movement	(715)	(2,261)	(142)	–	(5)	(3,123)
At 31 December 2017	7,398	23,681	2,159	–	96	33,334
Accumulated amortisation and impairment						
At 1 January 2017	–	1,628	678	1,473	63	3,842
Charge for the year	–	1,577	144	–	36	1,757
Disposals	–	–	(130)	–	–	(130)
Write-off of customer contracts	–	–	–	(1,473)	–	(1,473)
Impairment	7,398	20,610	752	–	–	28,760
Foreign exchange movement	–	(134)	(40)	–	(3)	(177)
At 31 December 2017	7,398	23,681	1,404	–	96	32,579
Net book amount						
At 31 December 2017	–	–	755	–	–	755

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 applied subsequent to the impairment review (see note 7). The value of the impairment was £nil (2017: £2,185,000).

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.

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

2017	Assets under construction £'000	Land £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2017	104	1,330	12,200	13,634
Additions	18	–	16	34
Disposals	–	–	(2,545)	(2,545)
Transfers to plant and machinery	(64)	–	64	–
Foreign exchange	(7)	(118)	(1,004)	(1,129)
At 31 December 2017	51	1,212	8,731	9,994
Accumulated depreciation and impairment				
At 1 January 2017	–	–	7,997	7,997
Charge for the year	–	–	1,136	1,136
Disposals	–	–	(2,462)	(2,462)
Impairment	31	666	1,519	2,216
Foreign exchange	–	–	(694)	(694)
At 31 December 2017	31	666	7,496	8,193
Net book amount				
At 31 December 2017	20	546	1,235	1,801

As at 31 December 2018, the Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £nil (2017: £2,000).

9. Investment in associate

This investment relates solely to Velocys' holding in ENVIA Energy, LLC (ENVIA), located at 1021 Main Street, Suite 1000 Houston, TX 77002. ENVIA is a US company and is the holding company for the project located in Oklahoma (the ENVIA project). The Company first invested in ENVIA in 2014 as entry into a joint venture to develop GTL plants in the US using a combination of renewable biogas (including landfill gas) and natural gas. The first of these plants, ENVIA Oklahoma City produced its first product in 2017.

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. In January 2016, Velocys entered into a financing arrangement with ENVIA under which it contributed additional equity finance of $2.6m and committed to provide loan finance of up to $9.3m. As a result of the new funding arrangement, Velocys increased its ownership share and was awarded additional voting rights, taking its share of voting rights from 9% to 28%. The investment has since been recognised as an Investment in associate, reflecting the significant influence that Velocys holds in ENVIA, including voting rights exceeding 20% and a seat on ENVIA's board. The Company recorded the transaction as a step acquisition under the equity method in 2016.

Investments in associates are accounted for using the equity method of accounting from the date on which it becomes an associate. Under the equity method, a cost approach is followed whereby the cost of all purchases are accumulated, including transaction costs, to determine the amount of the investment. The notional purchase price allocation, including Goodwill arising on the purchase of the additional stake, is calculated using fair value information at the date when the additional interest is acquired. Goodwill is calculated as the excess of the cost of the investment over the Company's share of the net fair value of the investee's identifiable assets and liabilities and included in the carrying amount of the investment. During 2017 Velocys committed to a series of extensions to the loan, which increased the facility to $13.8m (£10.3m) (see note 10), however these extensions did not result in a change in the Company's ownership interest or voting rights. In September 2017, one of the joint venture partners, NRG, withdrew its interest and assigned its ownership and voting units to the remaining partners such that each was left with voting rights of 33%. No consideration was given in respect of this transfer. The Company recorded the transaction as a step acquisition under the equity method in 2017.

The Company's share of post-acquisition profit or loss is recognised in the Income statement based on its economic interest. There are no post-acquisition movements in Other comprehensive income in the Company's investments in associates. Distributions received from an associate reduce the carrying amount of the investment. The carrying amount of the investment is adjusted to recognise the investor's share of the change in net assets of the investee after the date of acquisition.

Gains and losses resulting from upstream and downstream transactions between the Company and its associate are recognised in the financial statements only to the extent of unrelated investors' interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company. There have been no dilution gains and losses arising in investments in associates.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to share of profit/(loss) of associates in the income statement.

Critical estimates and judgements

<u>For 2017 Change in ownership rights – fair value assessment of ENVIA's net assets</u>

In September 2017 Velocys increased its equity share and voting rights at ENVIA following the exit of NRG from the joint venture, for no consideration. The voting rights for the three remaining joint venture members, including Velocys, were accordingly increased to 33% each. The increased interest in the associate was acquired through an increase in an existing stake. There is an accounting policy choice available for the acquisition of an associate in stages (step acquisition). Velocys applied the 'cost approach', whereby there is a requirement to assess the fair value of both the consideration and the net assets being acquired. The fair value of the net assets being acquired was determined by its value in use, assessed by the estimated future cash flows discounted to their present value using an appropriate pre-tax discount rate model, which requires the use of a number of key assumptions. The Company recorded a gain on bargain purchase of £1,750,000 in 2017 in respect of the step acquisition.

Impairment of the investment in ENVIA

The calculations use projections derived from cash flow forecasts developed by Velocys, covering the two-year period from 2018 to 2019, and subsequently extrapolated to 2037, which is considered to be the economic life of the asset, using the estimated long-term growth rate. The cash flow forecast relies on the intimate working knowledge of the plant that Velocys has gained since the beginning of the start-up process. Ongoing uncertainties, for example, with the availability and price of RINs, are taken into account by using a number of different scenarios in the model. IAS 36 requires that when performing an impairment review that risk is incorporated into the impairment model. This can be done either in the cash flows or through the discount rate. The Company has incorporated risk through the cash flow forecasts by assessing a number of potential outcomes and assigning a probability of the likelihood of each of these outcomes occurring. The range of the value in use based on these potential outcomes is significant, which reflects the early stage nature of the venture. The key assumptions included in calculating the recoverable amount are set out below.

(i) Sales volume
The plant capacity is 250 barrels per day (bpd) production and the model assumes 200 bpd average actual production at the plant due to varied reduction in availability due to time out for catalyst regeneration, catalyst change out or other maintenance. It assumes that a large majority of the product will qualify for RINs. There are offtake agreements in place for all products that exceed five years for 100% of products produced and there is a six-month contract in place for all of the available RIN credits generated; therefore, the sales volume risk is solely based on operational availability. As indicated above, sensitivity analysis reveals that a decrease to 186 bpd from the 200 bpd modelled availability (which is over 25 bpd below operating plan) would be required in order to generate a material change in the cash flows. The impact of aggressive sensitivity modelling of RIN availability does not have a material impact on cash flows.

(ii) Sales price/RIN credits
The model is based on an oil price (WTI) of $57.50 per barrel and a RIN price of $2.40 per gallon until October 2018 and then $3.05 per gallon, with scenarios looking at an increase or reduction in these prices of 10%. The prices of diesel, naphtha and wax are all indexed to the oil price and/or rack pricing that is highly correlated to the price of oil. Although volatility of oil price could significantly vary revenues, the price has been relatively stable for the past 12 months and, based on current WTI futures, is projected to trade in this range for the remainder of 2018. There is a possibility within the range of modelled scenarios for RIN pricing to result in a material impact on cash flows, but not on a risk-adjusted basis, as the current forward outlook shows price recovery.

(iii)Long-term growth rates
A long-term growth rate of 2% was used to extrapolate the cash flows for the period from 2020 to 2037. This is based on the US long-term GDP growth rates, the principal country in which ENVIA operates, and in preference to an industry average rate, given the early stage of development in the industry and resulting uncertainty. A reduction in the growth rate to 0% would not result in a material reduction in the gain on bargain recorded, or to the impairment recognised.

(iv) Discount rate
The discount rate is based on an estimate of ENVIA's weighted average cost of capital (WACC) being the average rate of return ENVIA expects to compensate all its investors. ENVIA has both equity and debt capital in the form of the loan from Velocys. At September 2017 (step acquisition) and December 2017 (impairment assessment) a post-tax discount rate ('discount rate') of 10.95% was applied to the model. It is a reasonable assumption that the discount rate might vary in a range up to 12.7%; this would not result in a material change to the value of ENVIA's net assets.

Impairment assessments

In September 2018, the Board of Directors of ENVIA announced its intentions to suspend operations at the Oklahoma City plant and to undertake a review of strategic alternatives in order to preserve the value inherent in the facility. This decision was driven by financial circumstances following a leak at the plant, which was established not to be caused by Velocys' FT technology, as announced on 15 May 2018. ENVIA's investigation into the leak identified the ancillary coolant system as the root cause, which was independently verified through a third-party insurance company. Based on the Board of Directors of ENVIA decision to suspend operations, the Company determined that its investment in ENVIA should be fully impaired. As a result, the Company recorded an impairment of £848,000 in 2018.

During 2017 the first saleable products using Velocys' reactors and catalyst had been produced to customer specification and the offtakers had begun taking delivery of the waxes, diesel and naphtha. Despite these milestones, ENVIA's recoverable amount, based on its value in use, calculated using a discounted cash flow model, had decreased significantly, predominantly driven by a lower revenue forecast based on a revision of product and RIN pricing produced by the Company. The recoverable amount of the investment was determined by its value in use, assessed by the estimated future cash flows discounted to their present value using an appropriate pre-tax discount rate model, which required the use of a number of key assumptions. These are included in the 'Change in ownership rights - fair value assessment of ENVIA's net assets' section above. The Company recorded an impairment of £2,736,000 in 2017.

Critical judgements

<u>Share of ENVIA's identifiable assets and liabilities and its share of profit and loss</u>

Under the equity method the profit or loss of the investor includes its share of the profit or loss of the investee. The Company bases the calculation of its share of ENVIA's identifiable assets and liabilities and its net losses on a value distribution model developed by ENVIA that uses the LLC agreement agreed with each of the other parties that hold ownership units. The resulting percentage share differs to both the Company's proportion of ownership units held in ENVIA and its proportion of voting units. This value distribution is considered a more appropriate measure of the Company's economic interest in ENVIA.

	2018 £'000	2017 £'000
Investment in associate		
At 1 January	2,580	5,865
Gain on bargain purchase	–	1,750
Share of loss	(1,717)	(1,784)
Impairment	(848)	(2,736)
Foreign exchange	(15)	(515)
At 31 December	–	2,580

Summarised financial information for ENVIA
Set out below is the unaudited summarised financial information for ENVIA. The information below reflects the amounts presented in the financial statements of ENVIA adjusted for differences in accounting policies between the Company and ENVIA. ENVIA financial statements are not prepared under IFRS but management does not consider US GAAP to be materially different from IFRS for this purpose. The unaudited amounts below represent the book values and exclude any fair value adjustments that may be required.

ENVIA Energy, LLC	**2018** (unaudited) £'000	2017 (unaudited) £'000
Summarised balance sheet		

Non-current assets	55,823	57,667
Current assets	2,609	2,978
Current liabilities	(242)	(435)
Non-current liabilities	(17,231)	(10,966)
Net assets	40,959	49,244
Summarised statement of comprehensive loss		
Revenue	445	409
Loss from continuing operations	(12,282)	(7,851)
Total comprehensive loss	(12,282)	(7,851)

10. Trade and other receivables

Trade receivables represent assets that are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest. Other receivables consist of vendor deposits and deferred costs associated with an ongoing project. 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.

	2018 £'000	2017 £'000
Trade and other receivables – non-current	281	-
Trade and other receivables - current	930	416
Loan receivable	3,474	10,284
Total	4,685	10,700

The Company applies the IFRS 9 simplified approach to measuring 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 12month ECL is recorded as a result of probability of default are possible within the next 12 months. In stage 2, a lifetime ECL is recorded if a loans credit risk has significantly increased since initial recognition and is not considered low. In stage 3, a lifetime ECL is recorded if a loans 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. Two scenarios were considered relevant at 1 January 2018 - the Upside scenario with a probability weighting of 25% and a Downside scenario with a probability weighting of 75%. In calculating the expected credit loss rates, the company determined the probability of default using historical loss rates, and adjusted (where necessary) for forward looking data and information and the expected loss given default (LGD) under each scenario to the outstanding loan balance (exposure at default - EAD). Overall this resulted in an adjustment of £2,274,000 to reflect the lifetime expected credit loss against this receivable.

In September 2018, the Board of Directors of ENVIA announced its intentions to suspend operations at the Oklahoma City plant and to undertake a review of strategic alternatives in order to preserve the value inherent in the facility, which resulted in the Downside scenario now having a probability weighting close to 100%. At year end a further review of the IFRS 9 ECL analysis for its loan with ENVIA was performed, updating the key inputs mentioned above. Based on the year end ECL analysis, the company recorded an additional impairment on a lifetime ECL basis of £10,067,000. The outstanding balance of the loan at 31 December 2018 is therefore £3,474,000. The loan agreement with ENVIA resulted in a total committed limit of £15,815,000 and was terminated in May 2019.

The loss allowance provision related to loan receivables as at 31 December 2018 reconciles to the opening loss allowance for that provision as follows:

	Loss allowance provision £'000
1 January 2018 – IAS 39 Increase in loan receivable loss allowance recognised in impairment expense	- 2,274
Opening allowance at 1 January 2018 – IFRS 9	2,274
Increase in loan receivable loss allowance recognised in impairment expense	10,067
At 31 December 2018 – IFRS 9	12,341

Presented below is a roll forward of the loan receivable balance as at 31 December 2018.

	Amortised Costs £'000
1 January 2018 – IAS 39 Increase in loan loss allowance recognised in impairment expense	10,284 (2,274)
Opening balance at 1 January 2018 – IFRS 9	8,010
Drawdowns on loan during 2018 Increase in loan loss allowance recognised in impairment expense	5,531 (10,067)
31 December 2018 – IFRS 9	3,474

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

11. 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.

	2018 £'000	2017 £'000
Raw materials and consumables	1,043	31
Finished goods	395	357
Total	1,438	388

Raw material and consumables consist primarily of material that will be consumed in the manufacturing of reactors and catalyst.

There were no impairments recorded with respect to inventory in 2018. In 2017, the Company impaired £340,000 of inventory which was primarily the value of a remaining inventoried reactor and an immaterial amount of catalyst. The Company impaired the reactor as a reflection of the fact that it is unlikely the Company will find a buyer for this reactor due to subsequent advances in the reactor design. As part of the impairment allocation described in note 2 the Company impaired £541,000 of inventories in 2017.

12. Cash and cash equivalents and restricted cash

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.

	2018 £'000	2017 £'000
Cash and cash equivalents	6,964	2,070
Restricted cash	–	620
Total	6,964	2,690

Restricted cash related to a letter of credit provided to ENVIA under the first amendment to the loan agreement. This was determined to be restricted on the basis that for a certain period the funds could only be accessed by ENVIA. In September 2018, the Company received notice that ENVIA filed the required paperwork to draw down the standby letter of credit. In October 2018, the standby letter of credit was drawn down by ENVIA

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

	2018 £'000	2017 £'000
Cash and cash equivalents		
UK sterling denominated	5,130	1,245
US dollar denominated	1,733	825
Euro denominated	101	
Restricted cash		
US dollar denominated	–	620
Total	6,964	2,690

13. Trade and other payables: current

	2018 £'000	2017 £'000
Trade payables	853	604
Other taxation and social security	395	52
Accruals	1,770	2,242
Total	3,018	2,898

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 (2017: 60 days or less).

14. Deferred revenue

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

£'000	**Catalyst**	**Reactor**	**License**	**Total**
At 1 January 2017	1,721	-	-	1,721
Contract liabilities incurred	-	-	-	-
Revenue recognised in the period	(483)	-	-	(483)
At 31 December 2017	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 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.

15. Post financial position events

The following events took place after 31 December 2018

Appointment of directors
The appointments of Philip Holland and Darran Messem as Non-Executive Directors to the Board of Velocys plc was made on 1st January 2019.

Red Rock Biofuels amendments
The Company agreed a series of amendments in its licensing contracts on 12th February 2019, with Red Rock Biofuels LLC (RRB), regarding RRB's license of Velocys Fischer-Tropsch reactors and proprietary catalyst for the RRB biorefinery under construction in Lakeview, Oregon, USA. The amendments are at RRB's request and allow it to complete the biorefinery on their desired timeline. The amended agreement will see Velocys accelerate delivery of the first of four reactors and first four charges of catalyst. It will also reduce the firm commitment for reactors from six to four but RRB will retain an option to acquire reactors 5 and 6 until the end of 2020, for delivery at the existing contract price. These changes have a positive impact on Velocys' near-term cash flow of an estimated £1.4 million and a decrease in future revenue of nearly £3.8 million (out of a total contract value of approximately £19.1 million). Should RRB exercise its option to purchase the two additional reactors the total contract value will return to approximately £19.1 million. RRB remains committed to purchase a total of six charges of catalyst in 2019.

ENVIA Settlement
The Company has completed negotiations in April 2019 with one of the remaining partners and landfill gas supplier to sell some of the assets and terminate the loan which has removed the Company's liens associated with ENVIA from the Company and release the site to the landlord so that they can pursue their own business from the site for a total of £3.26m. Please see note 10 for additional information regarding the ENVIA loan. This will be referred collectively as the ENVIA settlement and is considered a best outcome for the loans made of £15.8m and a positive result from the activity with ENVIA including all the operating and management data secured from the operation of this full scale operational FT plant.

16. Statutory information

Copies of the 2018 Annual report and accounts will be posted or emailed to shareholders at least 21 days before the Company's Annual General Meeting and may be obtained, free of charge for one month from the date of posting, from the registered office of Velocys plc, Harwell Innovation Centre, 173 Curie Avenue, Harwell, OX11 0QG, UK, as well as from the Company's website www.velocys.com.

17. Annual General Meeting

The Annual General Meeting (AGM) is to be held on 12 June 2019. Notice of the AGM will be dispatched to shareholders with the Company's Annual report and accounts.