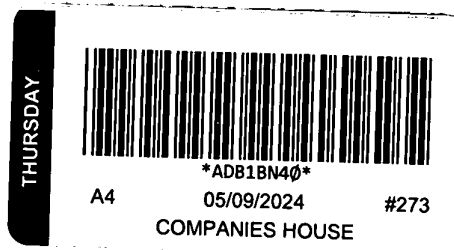


Velocys plc
Company number 05712187
Annual report & financial statements
for the year ended 31 December 2023



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Strategic Report

For the year ended 31 December 2023

Company overview

Velocys ("the Company") is a privately owned sustainable fuels technology company, currently employing approximately 45 employees across its' two US sites in Houston and Columbus, and in Oxford, UK. The Velocys technology solution enables the production of synthetic fuels from a variety of sustainable non-fossil waste materials, such as woodchips and residual waste. Synthetic fuel is a leading, commercially available, permanent alternative to fossil aviation fuels. Velocys' ambition is to accelerate enabling commercial scale sustainable aviation fuel ("SAF") production in response to the global clean energy transition.

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

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

Business strategy and objectives

The Company's aim is to become a leading provider of innovative SAF solutions to enable the decarbonisation of the aviation industry.

The Company's near-term ambitions are focused on growing the customer pipeline, progressing the biorefinery reference projects in the UK and US into front end engineering design ("FEED") delivery and revenue generation.

The reference projects are being developed to accelerate adoption of the Company's technology and, following the completion of third-party construction capital project financing and commencement of the detailed engineering stage of these projects, the reference projects are expected to generate significant technology licensing revenue for the Company.

The Company is also focused in the short-term on expansion of its commercial and business development functions, and engineering and reactor manufacturing to support the scale-up of its business.

During 2023, the Company focused on the following corporate objectives to measure the Company's success in advancing towards these strategic goals:

PROGRESSING THE BAYOU FUELS, US REFERENCE PROJECT

Achieving the milestone of launching the Bayou Fuels Series A financing has been a key priority for several years, and required the confirmation of the policy framework in the US to provide a clear position on the project economics investors require. Supported by a global investment bank, the Company launched the funding round in March 2024 with the aim of having funds in place to start the FEED phase later in the year. A significant focus on the preparations for this process and further optimisation of the design of the biorefinery continued throughout the year.

PROGRESSING THE ALTALTO IMMINGHAM, UK REFERENCE PROJECT

Significant progress has been made on advancing the FEED work for the Altalto project with engineering services provided by Bechtel Limited working in collaboration with the technology licensors forming part of the integrated technology offering. This work was supported by a grant award of £27 million from the UK Advanced Fuels Fund to be used for the completion of the project FEED for Altalto, of which £13 million was available during 2023. Further funding requires matched funding from the Company, and therefore a Series A funding round commenced in March 2024.

PROGRESSING THE E-ALTO POWER TO LIQUIDS ("PTL") REFERENCE PROJECT

The Company also secured a grant award of £2.5 million under the Advanced Fuels Fund to conduct a study into an e-fuels project (where energy input is derived from renewable electricity via hydrogen). E-fuels technology also requires FT synthesis technology for conversion of hydrogen into liquid sustainable fuels which provides a diversification opportunity to deploy Velocys FT technology and work with new strategic partners.

GROWING THE BUSINESS DEVELOPMENT PIPELINE

There has been a significant increase in customer enquiries stimulated by strong policy incentives, particularly for smaller scale opportunities. Given the financial constraints under which the Company was operating during 2023, it has not been possible to devote the engineering resources necessary to fully support all potential opportunities at the same time as progressing the reference projects, but some key projects are emerging as likely commercial customers in the near term.

Strategic Report continued

For the year ended 31 December 2023

Business strategy and objectives continued

CONTINUING TO IMPROVE MANUFACTURING CAPABILITY

The Company has a target to manufacture reactor cores in-house with sufficient capacity to enable the production of 12 commercial scale reactors per year. A project to construct and fit-out a new building in Columbus, Ohio commenced in 2022, with the lease commencing in May 2023. Long lead-time manufacturing equipment was delivered on site from mid-year. During 2023, the Company vacated its legacy site in Ohio, relocated all viable equipment into the new facility and commenced the commissioning of the manufacturing line.

Business model

Velocys operates a capital light and scalable business model focused on providing a unique technology pathway to enable production of SAF. Velocys has developed industry leading proprietary patented micro-channel Fischer-Tropsch reactors and a comprehensive biorefinery integrated technology package for use by SAF producers with the focus of the business model being to provide Velocys' Fischer-Tropsch solution under site licence agreements and subsequently providing engineering services, reactors and catalysts to generate revenue through fees.

Velocys has an extensive intellectual property portfolio consisting of over 200 granted patents, 90 pending patents and various trademarks.

Through established strategic alliances with technology and engineering partners, Velocys is able to offer a highly competitive fully integrated end-to-end solution for converting sustainable non-fossil feedstocks into SAF.

Business environment

The provision of Velocys' integrated technology and service model requires significant engineering and project resources, alongside a robust balance sheet to support the business whilst its revenue pipeline develops (including the two reference projects in development) and to provide performance guarantees to future clients.

The Company's commercial progress, and in turn the timing of significant revenue and income for Velocys, is dependent on external factors such as favourable government policies relating to SAF and the construction funding of biorefineries by third parties. The potential for delays to Velocys' revenue potential means that significant working capital continues to be required to support the business during its growth phase.

The Company's main focus during 2023 was to secure sufficient growth capital in order to continue as a going concern, either from the public markets whilst it was an AIM registrant and subsequently through bridge financing provided by new shareholders who participated in a scheme of arrangement during December 2023 and January 2024 which ultimately took the Company into private ownership with a commitment to provide a minimum of \$40 million of growth capital.

Therefore, the Company is well placed to expand its capacity to support the reference projects and its aims to convert licensing opportunities from its growing customer pipeline into binding agreements.

Performance during the year

Against a backdrop of preserving the Company's cash resources, whilst actively pursuing various fundraising options, the Company remained focused on the business objectives which have the highest probability of leading to revenue opportunities and activities which support the planned Series A financing round for the Company's Bayou Fuels and Altalto Immigham reference projects.

REVENUES AND GROSS PROFIT

The Company recognised revenue of £0.1m (2022: £0.2m) for the year ended 31 December 2023. Annual revenues are expected to remain uneven in the short-term due to the growing but concentrated number of projects in development whilst the SAF market becomes more established. The revenue was in respect of engineering feasibility services provided to customers at an early stage of their respective projects. Gross profit for the year ended 31 December 2023 was £0.0m (2022: £0.2m).

Strategic Report continued

For the year ended 31 December 2023

Performance during the year continued

EXPENSES

Operating expenses for the year ended 31 December 2023, which include the costs incurred by the Company for engineering and project development services performed for the reference projects increased by 87% to £30.5m (2022: £16.3m). Key components of operating expenses were employee benefit expenses of £7.9m (2022: £8.2m), project engineering and consultancy costs of £14.9m (2022: £3.2m), depreciation and amortisation of £1.3m (2022: £1.2m) and other corporate running costs of £6.4m (2022: £3.7m).

Employee benefit expenses were £1.0m lower than in 2022 primarily due to a reversal of stock-based compensation charges generating a credit to the income statement of £0.6 million triggered by the scheme of arrangement and change of ownership, which led to reversal of share option charges, which were no longer applicable. There was an average of 42 employees during 2023 (2022: 36).

The other main driver of operating expenses are the costs incurred with our technical partners for engineering process design and related services on the Company's two reference projects. These totalled £15.2m in 2023 (2022: £3.7m) mainly driven by the costs incurred during the FEED for the Altalto project.

The reference projects are designed to accelerate the adoption of the Company's technology, and to the extent possible, the Company has secured co-development funding or applied for government grants available to support sustainable aviation fuel projects. The majority of costs incurred for the Altalto project and e-Alto project during 2023 were supported by the Advanced Fuels Fund grant (for which £14.7m is included in other income). In 2023, £1.0m of partner funding was received under the Altalto co-development agreement which was offset against total development costs. Bayou Fuels development costs are borne wholly by the Company.

OTHER INCOME

The Company recorded other income for the year ended 31 December 2023 of £14.7m which consisted of £13.0m and £1.7m of grant funding for Altalto and e-Alto projects respectively. Other income in 2022 of £1.6m consisted of £1.5m of grant income from Green Fuels Green Skies grant awarded to the Altalto project by the UK Department for Transport in 2021 and a £0.1m gain on disposal of assets related to the relocation of premises in Ohio.

OPERATING LOSSES

Operating losses were £15.8m (2022: £14.5m).

NET ASSETS AND CASH

The net assets of the Company were £5.1m at 31 December 2023, which is a decrease of £11.6m compared to 2022. As at 31 December 2023, the Company had cash and cash equivalents of £1.4m (2022: £13.4m) and therefore the decrease in net assets is mainly due to the net cash outflow during the year.

Net cash outflow in 2023 was £11.9m, principally being cash generated from financing activities of £5.0m (from equity fundraise in June 2023), offset by £4.3m used in investing activities and £12.6m used in operating activities representing expenditure not covered by the Advanced Fuels Fund grants. Net cash outflow in 2022 was £12.2m, principally being cash generated from financing activities of £8.8m, attributed to £9.8m received from Foresight in March 2022 offset by lease payments, less £8.1m used in investing activities and £12.9m used in operating activities.

The Company continues to carefully manage its underlying cost base and invests prudently on capital expenditure required to support its commercial strategy. The Company incurs a proportion of its expenses in US dollars and has exposure to the US dollar exchange rate. This is hedged to the extent possible by holding cash reserves in US dollars.

IMPAIRMENT ASSESSMENTS (COMPANY AND THE PARENT COMPANY)

Impairment testing in relation to the long-term potential of the Company's in-process technology assets has not identified a change in circumstances or specific events during 2023, and therefore no impairment or reversal of previous impairments have been recorded in respect of the Company's assets in 2023.

The recoverable value is determined by comparing the higher of the value in use and the fair value less costs of disposal. Given the early stage of the Company's commercialisation plans, the quoted share price of the parent Company is normally deemed the most accurate indicator of value. However, in late 2023 the Company's share price was significantly depressed by its inability to raise further equity financing on the public markets and a Scheme of Arrangement was underway to take the Company private. A consortium of private equity investors were committed to providing the Company with growth capital following extensive due diligence to understand the Company's future prospects and evaluate its technology assets. Therefore, although the market capitalisation value at 31 December 2023 was £3.9m whilst the Company's net assets were £4.9m, the consortium saw the market opportunity of strong demand for SAF underpinned by mandates and valued the Company significantly higher than this when their growth capital was taken into account to support the Company in reaching its commercial potential.

Strategic Report continued

For the year ended 31 December 2023

Performance during the year continued

IMPAIRMENT ASSESSMENTS (COMPANY AND THE PARENT COMPANY) CONTINUED

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

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

In November 2021, the Company entered into its first offtake agreement, with Southwest Airlines ("Southwest"), for two thirds of the sustainable aviation fuel to be produced at the planned Bayou Fuels biorefinery project. A memorandum of understanding with International Consolidated Airlines Group S.A. ("IAG") was also concluded. While these two long-dated fuel offtake arrangements provide a high level of confidence of revenue for the Bayou Fuels project, which is an important step towards enabling capital financing for the engineering and construction phases, the Company from this point will likely retain only a minority interest in the project entity.

Landing commercial orders for reactors and catalyst, either from the reference projects or new commercial clients, supported by less variation in long-term cash flow forecasts and demand schedules, will be strong indicators that previous impairments of the Company's in-process technology assets may require reversal.

The parent company, Velocys plc, has both equity investments in its subsidiaries and loans made to its subsidiaries, which are compared to their recoverable amount. The impairment assessment for the equity investments typically considers their value compared to the parent company's market capitalisation value, although for the reasons outlined above this was not considered an accurate indicator of value at 31 December 2023. Investments totalled £9.2m at 31 December 2023 (2022: £9.4m). As a result of the circumstance outlined, no impairment was recognised (2022: £nil).

The parent company also assessed loans receivable from its subsidiaries and as a result recorded a provision charge for expected credit losses ("ECL") of £36,000 (2022: £2.2m). The total ECL provision of £6.2m at 31 December 2023 (2022: £6.1m) is eliminated on consolidation and therefore is not seen in the consolidated financial statements.

FUNDING

The Company concluded an equity fundraise on 8 June 2023 raising a total of £5.6 million (after expenses) in the form of a placing, retail offer and open offer of new ordinary shares.

The Company had also conditionally agreed to the issuance of convertible loan notes to Carbon Direct Capital, who provided a commitment to proceed provided that the Company raised a minimum of £32.0 million to support its growth needs (including from the June 2023 placing, the retail offer, the open offer and Carbon Direct Capital's conditional convertible loan note commitment for \$15m (£12m)). Throughout 2023, the Company faced very challenging capital market conditions which were particularly evident for pre-revenue AIM companies seeking growth capital. The £32.0 million total funding target was not met by the long stop date of 31 October and therefore the convertible loan notes did not proceed.

Ongoing funding discussions continued with potential strategic investors, and on 5 December 2023, the Company announced that the Board had reached agreement with Madison Bidco Limited ('Bidco') on the terms of a cash acquisition for the Company at a price of 2.5 pence per ordinary share, with a total purchase price of £4.1m, with an effective acquisition date of 17 January 2024. Conditional upon the acquisition becoming effective, Bidco committed to provide up to \$40 million (approximately £31.5 million) of growth capital.

In connection with the acquisition, Carbon Direct Fund agreed to provide a secured bridging loan facility of up to £3.5 million to ensure the Company had sufficient working capital through to the acquisition becoming effective in January 2024. The Company drew-down £0.5 million of this facility in December 2023 and a further £2.0 million in January 2024. This facility was novated to BidCo in January 2024 and the Company's obligations under the facility ended.

In total, BidCo has received £47.4m from its consortium of investors. After acquisition costs and settlement of the bridging loan facility, approximately £39.3m of growth capital is available to the Company.

Environment, social and governance

Our commitments extend beyond our technology with the recognition that we need to identify, mitigate and manage our ESG related risks and opportunities. This requires the implementation of a sustainability strategy that is appropriate for a business of our size and adheres to best practice guidelines. Given the rapidly developing nature of our environmental footprint, we believe it is important to maintain a flexible approach that allows our reporting to evolve in-line with our operational expansion. We intend to embed the necessary systems and processes over the course of the next few years and provide further disclosure around our net zero transition plans.

Velocys helps its clients have a positive environmental impact through the provision of sustainable aviation fuel. We have three major areas of focus.

Strategic Report continued

For the year ended 31 December 2023

Environment, social and governance continued

SUPPORTING THE GREEN ENERGY TRANSITION

There are currently circa. 25,000 commercial aircraft that generate 2-3% of global carbon emissions and pre-pandemic air traffic is forecast to double from 9 billion trips per year to 20 billion by 2040.

Velocys' technology adds significant IP and optimisation to the long-established Fischer-Tropsch production process which overcomes specific temperature and pressure challenges, thus enabling SAF to be produced safely and effectively at commercial scale.

Velocys' technology will help our client's meet industry and government carbon reduction targets while also supporting national fuel security initiatives. Furthermore, the produced fuel is cleaner burning than fossil-derived equivalents, with greatly improved air quality that has much lower sulphur oxide, nitrogen oxide and particulate matter emissions when combusted in conventional engines and turbines.

The fuels generated by our customers come from a variety of sustainable and responsibly sourced non-fossil-based solid feedstocks (woodchips and residual waste).

The feedstocks are abundant, and their use avoids adverse environmental impacts, such as landfill and the decomposition of non-processable wood on forest floors.

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

MANAGING CARBON EMISSIONS

As an organisation we are mindful of the impact of our operations and associated supply chains. We recognise a shared responsibility in the conduct of our business to minimise the depletion of natural resources, reduce waste and lessen our own contribution to climate change. There is an understanding that sustainability encompasses human and social aspects as well as environmental ones.

We monitor our manufacturing operations including catalyst, reactor, and supply chain, as well as our administrative operations for use of energy, travel, water, waste and usage of material resources.

In order to reduce direct CO₂ emissions, we restrict business air travel and we have found that replacing travel for face to face meetings with video conferencing is more time and cost efficient whilst also reducing our carbon footprint.

CARING FOR OUR PEOPLE

Velocys is committed to the welfare, safety and development of its employees and ensures the efficient delivery of company-wide support mechanisms and policies.

The Company encourages equality, diversity and inclusion amongst its workforce. Working at Velocys provides each employee with access to unique technologies, projects and facilities along with the opportunity to contribute and collaborate within an inclusive setting. Velocys is an equal opportunities employer and believes in respect, empowerment and creating an environment for each employee to reach their full potential.

This is supported by competitive compensation and generous employee benefit packages. Our recruitment and talent management practices ensure Velocys has a gifted and diverse resource pool to help meet its business needs.

During 2023, Velocys had 42 employees on average, 36% of whom were female (2022: 36%).

In 2023, Velocys maintained its record of no Lost Time Accidents ("LTA") for each of its UK and US sites, including no reportable injuries or illnesses. Velocys policies and procedures ensure regulatory compliance (OSHA in the US and HSE in the UK), including its safety policy and response programme for the escalation of any health and safety related issues.

SUSTAINABLE DEVELOPMENT GOALS

Much of how we approach the Company's sustainability is driven by the UN's 17 Sustainable Development Goals ("SDGs") which encompass a blueprint for a more sustainable future. These goals guide us as to how we can make a difference and although we are a relatively small company, we consider ourselves to be in the process of making meaningful contributions to a number of these SDGs and the UN 2030 Agenda for Sustainable Development. Below we highlight some examples of our alignment.

Strategic Report continued

For the year ended 31 December 2023

Environment, social and governance continued

SUSTAINABLE DEVELOPMENT GOALS CONTINUED

Gender equality (5)

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

Decent work and economic growth (8)

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

Industry, innovation and infrastructure (9)

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

Responsible consumption and production (12)

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

Climate action (13)

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

Principal risks and uncertainties

APPROACH TO RISK

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

During 2023, the Audit Committee and the Risk and Sustainability Committee played a central role in supporting the Board in the review of the Company's risk and internal control processes, and in overseeing an organisation-wide approach to risk identification, management and mitigation.

Post year-end, following the change of ownership structure, new Board members were appointed and given the responsibility to continue the role of these committees.

RISK MANAGEMENT PROCESS

The Company has a robust risk management framework that spans all its functions, and the Company's risk management policy sets out how risks are identified, assessed, mitigated, monitored and reported.

The Company maintains a detailed risks register which is reviewed on a quarterly basis. The risk assessment of inherent and mitigated risk levels determine which risks could have a potentially material impact on the Company's long-term performance and delivery of its strategy and are therefore reported as our principal risks. Emerging risks that may impact the Company's operations and performance are also considered on a regular basis.

No new principal risks were identified during 2023, although the risk of access to capital significantly deteriorated during the year and ultimately led to the acquisition of the Company in January 2024. Hence, post year-end this risk has significantly reduced.

Strategic Report continued

For the year ended 31 December 2023

Principal risks and uncertainties continued

PRINCIPAL RISKS

Access to capital

Risk description	Mitigation	Trend
A significant downturn in the macroeconomic environment or uncertainty in capital markets, may impact our ability to obtain sufficient financing in a timely manner which could impact Velocys' ability to continue as a going concern. This risk is balanced by the Company being in a market sector where investor preferences and sentiment influenced by environmental, social and governance (ESG) considerations may have a positive impact on our ability to raise capital.	- The Company's sole shareholder is owned by a consortium of climate impact fund investors with sector experience and considerable cash resources who take a long-term approach to investing for growth - Monthly cash flow forecasting with prudent assumptions to manage short-term cash runway within targets set by the Board - Long-term corporate forecast demonstrating positive cash flow with prudent assumptions on client pipeline enabling decisions around further fundraising in a timely manner	Decreasing

Reference project financing

Risk description	Mitigation	Trend
The Company's business plan depends on progressing two reference projects that will help grow the customer base and generate annually recurring revenues. If there is a delay in securing, sufficient strategic project investment to complete the detailed engineering phase (FEED), there is a risk that the projects do not proceed to FID and construction.	Bayou Fuels Project - Optimised engineering design in line with regulatory framework and policy support available in the US - Long term offtake agreements in place, demonstrating SAF demand - Series A funding launched in March 2024	No change
	Altalto Project - Option agreement for the Immingham project site in place - UK government SAF mandate confirmed in April 2024 - Grant award of £27m from the DfT's Advanced Fuels Fund to fund 50% of FEED, completion of which is subject to the matched funding which launched in March 2024 - Licensor agreements and engineering service agreement with Bechtel to deliver FEED and grant milestones	Decreasing

Strategic Report continued

For the year ended 31 December 2023

Principal risks and uncertainties continued

PRINCIPAL RISKS CONTINUED

Technology delivery

Risk description	Mitigation	Trend
<i>Technology performance</i> Our FTS solution may not perform as expected or at full conversion rate. In addition, catalysts might not perform as expected or for as long as expected. <i>Technology integration and delivery</i> Biofuels plants incorporate technology supplied by other licensors, which may not function or integrate as envisaged with our technology and may lead to lower than expected performance.	• Operation of our technology at commercial scale and successful demonstrations on a variety of feedstocks have provided comprehensive learnings for performance optimisation • Post operative studies in catalysis enable detailed understanding of operating conditions affecting catalyst longevity • Scientific Advisory Board in place to enhance in-house capability • Appointment of Bechtel as global engineering partner provides an EPC execution model for delivery of sustainable fuel plants • Technology partners (other licensors) have been carefully selected with commercial scale references and experience on representative feedstock	No change

Organisation scale-up

Risk description	Mitigation	Trend
Successful execution of our growth plan depends upon our ability to retain and attract highly skilled employees, including in engineering, commercial and business development, and manufacturing. An increased scale requires investment in business systems, processes, internal controls and operating practices to ensure they remain capable of supporting the increased level of operational activities. There is a risk that the organisation scale up does not proceed at the pace required, which could result in delays to achieving the Company's key milestones and heighten other operating risks such as health and safety.	• Management team with experience of change management in high growth organisations • Specialist recruitment advisors engaged to support the resourcing plan • Succession planning at board level and senior leadership team • Competitive remuneration, comprehensive employee benefits programme and stock option scheme	No change

Intellectual property

Risk description	Mitigation	Trend
While the Company's core technology is protected by a robust family of patents, unauthorised third parties may receive or obtain confidential information about the Company's core technology, exposing the Company to competitors obtaining this information and gaining a competitive advantage, which could adversely affect the Company's business, financial condition, results or future operations. The Company could unwittingly infringe IP rights of others, which could limit the Company's ability to deliver its technology to customers.	• IP lawyers are engaged for management of the existing portfolio. There is an active renewals programme and internal review process to capture and exploit new patent opportunities. Freedom-to-operate searches undertaken to minimise the risk of IP infringement by the Company. • Technical security measures against data loss through a systems breach are in place and are regularly reviewed and updated. • Strict non-disclosure and use agreements are signed with all third parties receiving confidential information.	No change

Strategic Report continued

For the year ended 31 December 2023

Principal risks and uncertainties continued

PRINCIPAL RISKS CONTINUED

Regulatory framework

Risk description	Mitigation	Trend
Our reference projects and our clients are critically dependent on government policy support to secure a significant explicit or implicit revenue for avoided CO₂ emissions. If policy support for mitigation of climate change, including decarbonisation of fuels, wanes, this could adversely affect our ability to secure financing for the reference projects. The reference projects are dependent on the provision of tax credits in the US and UK respectively in order to maintain plant revenues above operational costs. Any changes to relevant tax codes and / or legislation that are unfavourable, could adversely affect our potential earnings.	- The Company monitors decarbonisation policy developments in the US, UK, and other key areas and is an active member of various SAF industry forums - The UK government confirmed the UK SAF mandate and pricing mechanism in April 2024. Other territories continue develop their policies - Global airlines have made commitments to meet the applicable SAF mandates	Decreasing

Manufacturing capability

Risk description	Mitigation	Trend
The Company has extensive experience of managing contract manufacturing partners to produce micro-channel FT reactors on a small scale, however to meet projected demand, the reactor core sub-assembly process has been brought in-house. A new facility in Ohio, US was constructed during 2022, enabling the fit-out and commissioning of manufacturing operations to commence in HY2 2023. If we are unable to meet our quality assurance criteria, full scale commercial production would be delayed and therefore delivery to projects may be delayed. Further unplanned complications in the manufacturing supply chain could lead to delays, potentially triggering liquidated damages provisions in supply contracts.	- Overseen the construction to ensure all required power, health and safety, IT and operational requirements for manufacturing addressed - Manufacturing line being commissioned and new equipment qualified with site acceptance testing underway - Hiring and training plans underway - Manufacturing control systems designed and being tested	No change

Commercial execution

Risk description	Mitigation	Trend
The adoption of a new technology, with high capital requirements is inherently difficult to predict and there is a risk that commercial roll-out may be slower than anticipated. If we cannot convert pipeline opportunities into contractual commitments for purchasing our licence and hardware in a timely manner, we will have spare capacity in our production facility and revenues will not be as high as predicted.	- Prioritising commercial opportunities that have the greatest likelihood of obtaining investment to proceed - Commercial strategy and revenue model focussed on providing clients with an integrated technology package - Completing paid feasibility studies with potential clients	No change

Strategic Report continued

For the year ended 31 December 2023

Principal risks and uncertainties continued

PRINCIPAL RISKS CONTINUED

Cyber security and data protection

Risk description	Mitigation	Trend
Breach or failure of our or third parties' digital infrastructure or cyber security, including loss or misuse of sensitive information could damage our operations, increase costs and damage our reputation.	- The Company deploys IT security protection tools including ongoing detection and monitoring of threats - There is periodic staff training on cyber security threats, supported by corporate policies for data protection governing use of the Company's systems and access to information - The Company also maintains a cyber security insurance policy	No change

Sustainability and climate change

Risk description	Mitigation	Trend
The risks associated with climate change and the need to align with a carbon-neutral economy, affect the Company's current operations and longer-term strategic goals. Physical effects of climate change, such as adverse weather events, could cause business disruption through damage to our own facilities and those of our clients and suppliers. Taking decisions to reduce our own carbon footprint could have financial consequences, such as increasing the price of materials used in production and certain running costs.	- We have assessed the locations of our current facilities to be relatively low risk from natural disasters and weather events, however we have experienced some minor disruption to employees caused by specific adverse weather events and continue to manage these risks as part of our overall health and safety practices - Assessing climate-related risks is a key part of management's decision making to ensure resilient supply chain, production and logistics processes	No change

Strategic Report continued

For the year ended 31 December 2023

Section 172(1) statement

The directors of the Company must act within a general set of duties, which have been set out in Section 172 of the UK Companies Act 2006. Specifically, the directors should understand the views of the company's other key stakeholders and describe in the annual report how their interests and the matters set out in Section 172 of the Companies Act 2006 have been considered in board discussions and decision-making.

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

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

Board meetings are structured to ensure the requirements of Section 172 are fully considered when key strategic decisions are made. Below we describe how the Directors fulfil their duties by considering the potential impact of decisions made on our key stakeholders:

RISK MANAGEMENT AND LONG-TERM CONSEQUENCES

Decisions brought to the Board are considered in the wider context of their consequences for the business both in the short term but also in the long term.

Strategic decisions relate to the Company's reference projects; feasibility studies with potential partners and customers; manufacturing capacity; research into the development of reactors and catalyst; and the health and safety of employees and partners, along with how to resource this work with financial and human resources.

The consequences of these decisions and the risks taken have a direct impact on the activities of the Company and the relationships with all aspects of our stakeholders and the community. For further details of how we manage the risks in our business please see pages 8 to 12.

ENGAGEMENT WITH EMPLOYEES

Directors and senior management hold regular 'town hall' meetings for employees during which the progress of the Company is discussed together with Q&A sessions, health and safety briefings, and introducing new or changes to Company policies.

BUSINESS RELATIONSHIPS

The Company recognises the importance of mutually beneficial, long-term business relationships. Each major relationship with a customer, supplier, trade body, government department or other organisation is assigned a senior manager who is responsible for ensuring overall success and co-ordinating the interactions with other team members.

Having seen the benefits of remote working, the Company has taken to regularly using internet platforms for our meetings where travel is not necessary to achieve the main objectives.

Other relationships, including those with our engineering partners, our customers and our business development activities have led, for example, to the collaboration with Bechtel and the appointment of a leading global investment bank to support the reference project financing.

We are also focused on creating new business relationships with potential customers with the aim of developing a sustainable pipeline of opportunities throughout the world that will benefit from the use of our technology and the integrated engineering services.

COMMUNITY AND THE ENVIRONMENT

Our raison d'être is to provide a solution to parts of the transport sector that are hard to decarbonise, especially air travel. We are developing an engineered, integrated technology package which will allow plants to be built with a significant beneficial impact on the carbon emissions of this sector.

Velocys is committed to acting and developing sustainably and much of how we approach the Company's sustainability is driven by the UN's Sustainable Development Goals.

As an example, a revised engineering design for the Bayou Fuels reference project planned in Natchez, Mississippi lowered the prospective carbon intensity score of the fuel to be produced, through incorporating a biomass boiler and carbon capture and sequestration into the design.

Strategic Report continued For the year ended 31 December 2023

Section 172(1) statement continued

COMMUNITY AND THE ENVIRONMENT CONTINUED

In Ohio, where our new reactor core manufacturing facility was constructed during 2022, we have signed an Enterprise Zone agreement with Union County, Ohio and also a grant agreement with JobsOhio for \$200,000, the terms of which include the creation of new skilled jobs and contributions to community projects in the local area.

STANDARDS OF BUSINESS CONDUCT

We actively promote doing business ethically and with the highest integrity standards. Our policies on Ethics, Anti-Corruption and Bribery and an Anti-Modern Slavery Policy set out the standards by which all employees are expected to operate.

ENGAGEMENT WITH SHAREHOLDERS

Throughout the year ended 31 December 2023, the Company was traded on AIM and therefore had a diverse number of shareholders. The executive directors met regularly with the largest shareholders of the Company as well as providing a forum, through the use of internet-based platforms, to keep all shareholders up to date with the activities of the Company. Regular communications to our shareholders also took place using the Company's website where applicable.

Approved by the Board and signed on its behalf by:



Henrik Wareborn

Director

25 July 2024

Directors' report

For the year ended 31 December 2023

The Directors present their report and the audited consolidated financial statements of the Company for the year ended 31 December 2023.

COMPANY

Velocys plc was a public company limited by shares incorporated in the United Kingdom and registered in England and Wales. The registered office address is Magdalen Centre, 1 Robert Robinson Avenue, Oxford Science Park, Oxford, OX4 4GA, UK. Until 17 January 2024, Velocys plc was registered on AIM.

PRINCIPAL ACTIVITIES

The principal activities of the Company are detailed in the Strategic Report on pages 3 to 14.

FUTURE DEVELOPMENTS

The Board aims to pursue the corporate strategies detailed in the Strategic Report on pages 3 to 14.

DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended 31 December 2023 (2022: nil).

RESEARCH AND DEVELOPMENT

The Company's research and development activities relate primarily to the development of technology to support sustainable fuel projects in the UK and the US. This includes work on catalyst optimisation as well as development work on parts of the reactor design that can affect the scale of the reactors in the field. Details of research and development costs are shown in note 6 of the consolidated financial statements.

DONATIONS

The Company made no political donations during 2023 (2022: nil).

POST FINANCIAL POSITION EVENTS

Acquisition of the Company by Madison Bidco Limited

On 5 December 2023, the boards of directors of Madison Bidco Limited ("Bidco") and Velocys plc announced that they had reached agreement on the terms and conditions of a recommended cash acquisition of the entire issued ordinary share capital of Velocys plc.

The acquisition was implemented by way of a Court-sanctioned Scheme of Arrangement ("the Scheme") under Part 26 of the Companies Act 2006. On 8 January 2024, the Scheme was approved by the requisite majority of shareholders and on 12 January 2024 the Court sanctioned the Scheme. The Scheme became effective on 17 January 2024, following the delivery of the Court Order to the Registrar of Companies.

Dealings in Velocys ordinary shares on AIM were suspended on 17 January 2024 when an application was made to the London Stock Exchange for the cancellation of admission to trading of Velocys ordinary shares on AIM. This took effect on 18 January 2024. Shareholders on the register of members on 16 January 2024 were entitled to receive 0.25 pence in cash per ordinary share. The Company had two shareholders subject to UK government financial sanctions. The Company has applied to the Office of Financial Sanctions Implementation to obtain a licence which will enable the shares to be transferred.

DIRECTORS

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

Henrik Wareborn

Kevin Bone – appointed 17 January 2024

Joshua Dienstag – appointed 17 January 2024

May Liew – appointed 17 January 2024

Philip Holland – resigned 17 January 2024

Philip Sanderson – resigned 17 January 2024

Darran Messem – resigned 17 January 2024

Ann Markey – resigned 17 January 2024

Tom Quigley – resigned 17 January 2024

DIRECTORS' INTERESTS

The directors who held office as at 31 December 2023 had the following interests in the shares of the parent company (as recorded in the Register of Directors' Interests and including those of the spouse or civil partner and children under 18).

Directors' report continued

For the year ended 31 December 2023

DIRECTORS' INTERESTS CONTINUED

	Velocys plc ordinary shares	
	31 December 2023	31 December 2022
Philip Holland	1,743,634	1,328,118
Darran Messem	558,333	558,333
Ann Markey	525,000	125,000
Tom Quigley	525,000	125,000
Henrik Wareborn	3,118,445	2,318,445
Philip Sanderson	600,000	200,000

DIRECTORS' QUALIFYING THIRD-PARTY INDEMNITY PROVISION

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

FINANCIAL INSTRUMENTS AND RELATED MATTERS

Included in note 29 on pages 45 to 48, are the Company's financial risk factors and policies and an indication of the Company's exposure to certain risks. Those elements of that note form part of this report and are incorporated by reference.

GOING CONCERN AND FUTURE FUNDING

The financial position of the Company, its cash flows and liquidity position are described in the Strategic Report and notes to these financial statements. The Company made a loss in the year ended 31 December 2023 of £17.3 million and consumed net cash flows from operating activities of £12.5 million. The Company also:

- Raised £5.6 million (net of expenses) in cash from an equity fundraise in June 2023
- Received grant income of £14.7m from Advanced Fuels Fund (AFF)
- Received loan financing of £0.5 million in December 2023
- Invested £4.0 million in property, plant and equipment primarily related to the new technical facility in Columbus, Ohio
- Ended the year with cash and cash equivalents of £1.4 million

As set out in the Post financial position events above, the Company was acquired in January 2024 by Bidco whose shareholders are a consortium of global growth investors. To date, Bidco has received funding of £47.4m from its investors. After acquisition related costs and settlement of a bridging loan provided to the Company, BidCo had £39.3m of funding in place, which is sufficient to provide the Company with the funding it requires for a period of at least twelve months from the date of approval of these financial statements.

The Directors of Velocys plc, in assessing the Company's ability to continue as a going concern, took into account the following:

- Bidco set out its commitment to provide growth capital to the Company of up to \$40m in the Scheme of Arrangement which facilitated the acquisition of the Company. In fact, this amounted to approximately £39m (\$50m);
- The funds owned by Bidco are ringfenced and only to be provided to the Company and for minor administrative costs. Bidco has confirmed that it has no intention of repatriating funds to its shareholders or utilising funds for other investments;
- Funds provided to the Company will take the form of equity, with Velocys plc issuing new ordinary shares of 1 pence to Bidco;
- Bidco has provided a letter of support to the Company and confirmed that it will provide financial support to the Company such that the Company is able to operate as a going concern and to settle its liabilities as they fall due; and
- Bidco has approved the Company's budget for 2024 and its cash flow forecast through to Q1 2026, which is based on the most pessimistic view of revenue and the Company being unsuccessful in the ongoing reference projects' development capital raise. The Company is satisfied that it will not require funds in excess of those currently available within Bidco. Regular cash flow forecasts are prepared to monitor the Company's performance against approved budgets which show the Company operates within the set parameters. Bidco is managing currency translation foreign exchange risks to the forecast by holding a proportion of the funds in US dollars.

Directors' report continued

For the year ended 31 December 2023

Taking account of the matters described above, the Directors are confident that the Company and the parent company will have sufficient funds to continue to meet their liabilities as they fall due for at least twelve months from the date of approval of these financial statements and therefore have prepared the financial statements on a going concern basis.

Approved by the Board and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Henrik Wareborn', with a stylized flourish at the end.

Henrik Wareborn
Director
25 July 2024

Statement of Directors' responsibilities

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

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

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

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

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

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

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

DIRECTORS' CONFIRMATIONS

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

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

On behalf of the Board



Henrik Wareborn
Director
25 July 2024

Independent auditors' report to the members of Velocys plc

Report on the audit of the financial statements

Opinion

In our opinion, Velocys plc's group financial statements (the "Group") and company financial statements ("Velocys plc") (together the "financial statements"):

- give a true and fair view of the state of the Group's and of Velocys plc's affairs as at 31 December 2023 and of the Group's loss and the Group's and Velocys plc's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report & financial statements (the "Annual Report"), which comprise: the consolidated statement of financial position and Velocys plc statement of financial position as at 31 December 2023; the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows, Velocys plc statement of changes in equity and Velocys plc statement of cash flows for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

Independence

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

Our audit approach

Overview

Audit scope

- The audit engagement comprised of the audit of the Group and Velocys plc's financial statements.
- We identified two financially significant components which were subject to full scope audits. These components are Velocys plc and Velocys Inc..
- We performed specified audit procedures at a further two components to address specific risk characteristics or to provide sufficient overall coverage of particular financial statement line items.
- All audit work was performed by the Group engagement team.
- Components where we performed audit procedures accounted for 97% of Group's consolidated loss before tax and 92% of the Group's total assets. Our audit scope provided sufficient appropriate audit evidence as a basis for our opinion on the consolidated financial statements as a whole.

Key audit matters

- Valuation of non-current assets subject to impairment (Group and Velocys plc)
- The ability to continue as a going concern (Group and Velocys plc)

Independent auditors' report to the members of Velocys plc - continued

Materiality

- Overall Group materiality: £1,800,000 (2022: £681,900) based on 10% (2022: 5%) of loss before tax.
- Overall Velocys plc materiality: £1,118,000 (2022: £384,000) based on 3% (2022: 1%) of total assets.
- Performance materiality: £1,350,000 (2022: £511,400) (Group) and £838,000 (2022: £288,000) (Velocys plc).

The scope of our audit

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

Key audit matters

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

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

The key audit matters below are consistent with last year.

Independent auditors' report to the members of Velocys plc – continued

Key audit matter	How our audit addressed the key audit matter
<i>Valuation of non-current assets subject to impairment (Group and Velocys plc)</i> The carrying value of the Group's non-current, non-financial assets is £20.8m (2022: £12.9m). These assets are intangibles of £1.6m (2022: £1.5m), property, plant and equipment of £14.4m (2022: £11.0m) and right of use of assets of £4.8m (2022: £0.4m). The net assets are £5.1m (2022: £16.7m). The carrying value of Velocys plc's investments in subsidiaries is £9.2m (2022: £9.4m) and the net assets are £34.0m (2022: £37.0m). Velocys plc's other non-current, non-financial assets for are not material, with a carrying value of £0.1m (2022: £0.1m). It is management's policy to perform an impairment assessment of the Group's non-current, non-financial assets and Velocys plc's investments in subsidiaries at least annually or more frequently if events or changes in circumstances indicate the carrying value may not be recoverable. The accounting framework also requires management to assess for an indication that an impairment loss recognised in prior periods, for assets other than goodwill, may require reversal. In assessing whether there was any indication of impairment, at 31 December 2023 the carrying amount of net assets were in excess of Velocys plc's market capitalisation of £3.9m. The directors considered whether the market capitalisation represented the fair value of the Group or as it had been unable to raise equity finance on a timely basis, whether instead it represented a distressed and therefore undervalued asset. In December 2023, an offer was received from a consortium of global growth investors to acquire the entire share capital of Velocys plc for £4.1m, which was less than the carrying value of the Group's net assets and significantly less than the carrying amount of the Group's non-current, non-financial assets subject to an impairment assessment. Due to concerns over going concern and the requirement for additional funding to sustain its operations, the directors recommended the Group's sale, which was completed in January 2024. This included a binding commitment by the acquiring shareholders to provide equity growth capital of at least £35.6m. The recoverable amount of the Group's and Velocys plc's assets, was determined for the cash generating unit ('CGU') to which these assets belong. The Group and Velocys plc have a single CGU. The recoverable amount of the CGU was determined by its fair value less costs of disposal ('fair value'), by reference to the implied enterprise value of the Group. The implied enterprise value was calculated using the combined acquisition price plus the net present value of committed capital. This implies an enterprise value of the Group of approximately £39.7m. The fair value comfortably exceeded the value of the assets being assessed for impairment and therefore no impairment was recorded. To assess whether historic impairment amounts should be reversed, the directors considered the trading performance in 2023, which, with no significant new revenue contracts, did not indicate that previous impairment losses should be reversed until further progress is achieved on the projects and revenue generation.	We assessed the level at which impairment testing was performed. Based on our knowledge of the business, including the use of assets and internal reporting, we agreed with management's judgement that the Group has a single CGU. We evaluated management's impairment indicators and their approach to calculating the CGU's recoverable amount, based on its fair value, determined using the implied enterprise value, with reference to the recent acquisition of the Group. We concluded that this approach was appropriate. Application of this approach requires certainty that the shareholders will fulfil their binding commitment to provide the equity growth capital. As set out in our conclusions relating to going concern below, we confirmed the binding commitment, intent and assessed the ability of the shareholders to provide this capital. We performed the following procedures to assess the fair value of the Group: • We reviewed the acquisition scheme of arrangement under Part 26 of the Companies Act 2006 and confirmed the cost of acquisition of £4.1m and committed equity growth capital of at least £35.6m. • We independently assessed the valuation of the CGU, considering management's planned timings of drawdown from the growth capital, which is forecast over the period to Q1 2026. Our assessment, supported by our valuation specialists, applied a discount rate of 30% to 50%, considered to be consistent with early-stage venture capital returns, to discount the future drawdowns. At the upper end of the range the implied enterprise value remained significantly in excess of the carrying value of the assets being assessed for impairment. • We performed a reverse stress test to understand the discount rate that would result in a material impairment. This confirmed that a discount rate significantly outside our reasonable range would be required. Additionally, we assessed whether a reversal of impairment was required and concluded that although the fair value exceeded the carrying amount of the assets being assessed for impairment, given that there are no significant operational or trading advances (such as a large new revenue contract or a technology milestone), it is appropriate to not record a reversal of previous impairment losses. We also assessed the Group's and Velocys plc's disclosures regarding these material accounting judgements. We consider that the disclosures appropriately draw attention to the significant areas of judgement that support management's conclusion.

Independent auditors' report to the members of Velocys plc - continued

Our audit focused on the risk that the carrying value of the Group's non-current, non-financial assets and Velocys plc's investments in subsidiaries could be overstated and further impairments be necessary, as well as considering if there were any indicators that the previous impairment may be reversed. In light of significant judgement involved in the impairment assessment and the inherent uncertainty of the Group's business model, we determined this to be a key audit matter. Refer to note 17 and 19 in the Group's financial statements and note 10 and 11 in Velocys plc's financial statements	
<i>The ability to continue as a going concern (Group and Velocys plc)</i> The directors have formed a judgement that there is a reasonable expectation that the Group and Velocys plc have adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements. For this reason, the directors have adopted the going concern basis in preparing these financial statements and concluded that there is not a material uncertainty. In forming this conclusion, the directors have considered the Group's board approved 2024 budget and its cash flow forecast through to 31 March 2026 (the 'assessment period'), including, for the purpose of this assessment, the most pessimistic view of revenue and the Group being unsuccessful in the ongoing reference projects' development capital raise. The directors also considered the key risks which may impact the assumptions used in the forecast. The Group made a loss in the year ended 31 December 2023 of £17.3m and consumed net cash flows from operating activities of £12.6m. Velocys plc made a loss in the year ended 31 December 2023 of £8.1m and consumed net cash flows from operating activities of £3.4m. In January 2024 the Group was acquired by Madison Bidco Limited ('Bidco'), whose shareholders are a consortium of global growth investors. This included a binding commitment by the shareholders to provide equity growth capital of at least £35.6m. Subsequently, further subscription agreements have been entered and Bidco has received additional funding of approximately £7.8m. The directors have concluded, based on their assessment, that the remaining funds held by Bidco are sufficient to provide the Group with the funding it requires during the assessment period. Bidco has committed to the Group that the funds are ring fenced and that support will be forthcoming for the foreseeable future, being not less than 12 months from the date of approval of these financial statements. The directors have concluded based on their assessment that there are no material uncertainties around the Group's and Velocys plc's ability to continue as a going concern. In light of material uncertainty concluded in the prior year, the continued loss before tax and operating cash outflows incurred during the year and forecast to continue during the assessment period, we determined this to be a key audit matter. Refer to note 2 in Group's and Velocys plc's financial statements.	For our audit response and conclusion in respect of going concern, see the "Conclusions relating to going concern" section below.

Independent auditors' report to the members of Velocys plc - continued

How we tailored the audit scope

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

The Group's accounting process is structured around UK and US finance functions with the core reporting function based in the UK. In establishing the overall Group audit strategy and plan, we determined the nature, timing and extent of audit procedures to be performed at the components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

For each component we determined whether we required an audit of their complete financial information ('full scope') or whether specified audit procedures addressing specific risk characteristics or financial statement line items would be sufficient ('specified procedures'). We performed a full scope audit for two components, which we determined to be individually financially significant (Velocys Inc. (US) and Velocys plc (UK)) based on their contribution to the Group's loss before tax. We determined that specified audit procedures were required at a further two components (Altalto Ltd (UK) and Velocys Technologies Ltd (UK)) to address specific risk characteristics or to provide sufficient coverage of financial statement line items. We performed analytical review procedures on the remaining components contributing insignificant loss before tax individually and in aggregate. These procedures include an analysis of year-on-year movements, at a level of disaggregation to enable a focus on higher risk balances and unusual movements.

Our audit scope provided us with sufficient evidence for our opinion on the financial statements as a whole. Components where we performed audit procedures accounted for 97% of the Group's loss before tax and 92% of the Group's total assets. All audit work was performed by the Group engagement team.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Group's and Velocys plc's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the Group's and Velocys plc's financial statements.

Materiality

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

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

	Financial statements - Group	Financial statements – Velocys plc
<i>Overall materiality</i>	£1,800,000 (2022: £681,900).	£1,118,000 (2022: £384,000).
<i>How we determined it</i>	10% of loss before tax	3% of total assets
<i>Rationale for benchmark applied</i>	Loss before tax is the primary measure used by the users of the financial statements in assessing the financial performance of the Group. This assessment is based on the benchmarks used in the Annual Report.	Total assets are the primary measure used by the users of the financial statements in assessing the performance and position of Velocys plc, reflecting its principal activity as a holding company.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £500,000 to £1,620,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example

Independent auditors' report to the members of Velocys plc - continued

In determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £1,350,000 (2022: £511,400) for the Group financial statements and £838,000 (2022: £288,000) for the Velocys plc financial statements.

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

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £90,000 (Group audit) (2022: £34,096) and £55,000 (Velocys plc audit) (2022: £19,190) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Obtained the Group's cash flow forecast for the period to March 2026 and confirmed these to board resolution.
- Tested the mathematical accuracy of the cash flow forecast. We did not identify any material exceptions in these tests.
- Agreed the opening cash balance included in the cash flow forecast, including the funds held in Bidco, to supporting audit evidence. We did not identify any material exceptions in these tests.
- Identified the key assumptions included in the cash flow forecasts, which was principally the cost burn rate. We compared the planned cash outflow to historical actual results to assess the reasonableness of the run rate and the assumptions were supportable.
- Reviewed the director's key assumptions and considered whether there were additional risks that needed to be reflected in the forecasts. This included performing a sensitivity analysis to assess a 'severe but plausible' downside scenario. Based on this downside scenario we concurred with the director's conclusion that the Group and Velocys plc have sufficient funds for at least 12 months from the date of approval of the financial statements. This conclusion is subject to continued access to the committed growth capital support from its parent company, Bidco. To assess the intent and ability of Bidco to provide the necessary growth capital we:
 - Reviewed the acquisition scheme of arrangement under Part 26 of the Companies Act 2006 and confirmed the cost of acquisition of £4.1m and a binding commitment by the shareholders to provide equity growth capital of at least £35.6m.
 - Obtained and reviewed a letter of support from Bidco to the Group and Velocys plc, which confirmed their intention to provide the necessary financial support.
 - Obtained and reviewed supporting audit evidence to confirm that the funds required during the assessment period, based on the audited cash flow forecasts, are held by Bidco, the Group and/or Velocys plc. Additionally, the letter of support confirmed that Bidco has no intention of repatriating funds to its shareholders or utilising the funds for other investments.
 - Obtained and reviewed additional subscription agreements entered in 2024, whereby Bidco has received additional funding of approximately £7.8m.
 - Examined evidence to assess Bidco's shareholders' ability to finance the committed equity growth capital, including reviewing publicly available financial information and their existing investment portfolio. We did not identify any evidence to suggest that the investors could not provide the required capital.
- Considered the adequacy of the disclosure included in note 2 of the financial statements. We determined it sufficient to inform users about the directors' basis for conclusion with respect to the appropriateness of using the going concern basis of accounting in the preparing the financial statements.

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

Independent auditors' report to the members of Velocys plc - continued

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Independent auditors' report to the members of Velocys plc - continued

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Companies Act 2006 and tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to potential misappropriation of the assets, and in particular the cash and cash equivalents. Audit procedures performed by the engagement team included:

- Held discussions with management and those charged with governance, including inquiries of known or suspected instances of non-compliance with laws and regulations and/or fraud;
- Evaluated the design effectiveness of management's control activities designed to prevent and detect irregularities;
- Reviewed meeting minutes of the Board of Directors, Audit Committee, Nomination and Governance Committee, Remuneration Committee and Risk and Sustainability Committee for consideration of known or suspected instances of non-compliance with laws and regulations and/or fraud;
- Identified and tested journal entries based on our risk assessment;
- Challenged assumptions and judgements made by management in their significant accounting estimates and material judgements and assessed the business rationale for significant contracts and transactions entered. This included an evaluation of whether there was evidence of management bias that represented a risk of material misstatement due to fraud;
- Incorporated elements of unpredictability into our audit procedures; and
- Reviewed the disclosures in the Annual Report against the specific legal requirements.

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

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

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

Use of this report

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

Independent auditors' report to the members of Velocys plc - continued

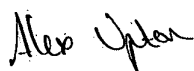
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Alex Upton (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
29 July 2024

Consolidated income statement

For the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Revenue	4, 5	61	241
Cost of sales		(13)	(87)
Gross profit		48	154
Administrative expenses	6	(30,506)	(16,263)
Other income	10	14,699	1,624
Operating loss		(15,759)	(14,485)
Finance income	11	46	1,359
Finance costs	12	(2,266)	(828)
Net finance (costs)/income		(2,220)	531
Loss before income tax		(17,979)	(13,954)
Income tax credit	13	634	755
Loss for the financial year attributable to the owners of Velocys plc		(17,345)	(13,199)
Loss per share attributable to the owners of Velocys plc			
Basic and diluted loss per share (pence)	16	(1.13)	(0.95)

Notes

The notes on pages 33 to 56 are part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2023

	2023 £'000	2022 £'000
Loss for the year	(17,345)	(13,199)
Items that may be reclassified to income statement in subsequent periods:		
Foreign currency translation differences	650	(412)
Total comprehensive expense for the year attributable to the owners of Velocys plc	(16,695)	(13,611)

Notes

The notes on pages 33 to 56 are part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2023

	Note	2023 £'000	2022 £'000
Assets			
Non-current assets			
Property, plant and equipment	17	14,379	11,004
Right-of-use assets	18	4,804	399
Intangible assets	19	1,643	1,524
Total non-current assets		20,826	12,927
Current assets			
Inventories	21	1,230	855
Trade and other receivables	22	3,577	2,586
Current income tax asset		637	976
Cash and cash equivalents	23	1,423	13,383
Total current assets		6,867	17,800
Total assets		27,693	30,727
Liabilities			
Non-current liabilities			
Provisions	24	(177)	(13)
Lease liabilities	18	(4,167)	(51)
Financial liabilities	25	(10,468)	(9,719)
Other liabilities	27	(157)	(165)
Total non-current liabilities		(14,969)	(9,948)
Current liabilities			
Provisions	24	(7)	(216)
Trade and other payables	26	(5,894)	(2,596)
Lease liabilities	18	(603)	(375)
Financial liabilities	25	(882)	(376)
Other liabilities	27	(105)	(322)
Deferred revenue	28	(145)	(206)
Total current liabilities		(7,636)	(4,091)
Total liabilities		(22,605)	(14,039)
Net assets		5,088	16,688
Equity			
Called up share capital	30	16,518	13,977
Share premium account	30	224,249	221,141
Merger reserve		369	369
Share-based payments reserve		683	3,137
Foreign exchange reserve		3,389	2,739
Accumulated losses		(240,120)	(224,675)
Total equity		5,088	16,688

Notes

The notes on pages 33 to 56 are part of these consolidated financial statements.

The financial statements on pages 28 to 56 were approved by the Board of Directors and authorised for issue on Date 25 July 2024 and were signed on its behalf below by:



Henrik Warebom

Chief Executive Officer

Company number 05712187

Consolidated statement of changes in equity

For the year ended 31 December 2023

	Note	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Share-based payment reserve £'000	Foreign exchange reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 2022		13,936	221,059	369	2,638	3,151	(211,476)	29,677
Loss for the year		-	-	-	-	-	(13,199)	(13,199)
Other comprehensive expense								
Foreign currency translation differences		-	-	-	-	(412)	-	(412)
Total comprehensive income/(expense)		-	-	-	-	(412)	(13,199)	(13,611)
Transactions with owners								
Share-based payments – value of employee services	15	-	-	-	499	-	-	499
Proceeds from options exercised		41	82	-	-	-	-	123
Total transactions with owners		41	82	-	499	-	-	622
Balance at 31 December 2022		13,977	221,141	369	3,137	2,739	(224,675)	16,688
Balance at 1 January 2023		13,977	221,141	369	3,137	2,739	(224,675)	16,688
Loss for the year		-	-	-	-	-	(17,345)	(17,345)
Other comprehensive expense								
Foreign currency translation differences		-	-	-	-	650	-	650
Total comprehensive income/(expense)		-	-	-	-	650	(17,345)	(16,695)
Transactions with owners								
Share-based payments – value of employee services	15	-	-	-	(554)	-	-	(554)
Transfer from share-based payments reserve	30	-	-	-	(1,900)	-	1,900	-
Net proceeds from share issues	30	2,541	3,108	-	-	-	-	5,649
Total transactions with owners		2,541	3,108	-	(2,454)	-	1,900	5,095
Balance at 31 December 2023		16,518	224,249	369	683	3,389	(240,120)	5,088

Notes

The notes on pages 33 to 56 are part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2023			
	Note	2023 £'000	2022 £'000
Cash flows from operating activities			
Operating loss		(15,759)	(14,485)
Depreciation and amortisation		1,346	1,194
Profit on sale of property, plant and equipment		19	(113)
Profit on sale of intangible assets		18	–
Share-based payments	15	(554)	499
FX not related to cash		(212)	647
Changes in working capital (excluding the effects of exchange differences on consolidation)			
Trade and other receivables		(991)	(1,312)
Trade and other payables		3,298	(373)
Provisions		(45)	229
Other liabilities		(225)	56
Deferred revenue	28	(61)	(120)
Inventory		(375)	–
Cash consumed by operations		(13,541)	(13,778)
Tax credits received		972	879
Net cash used in operating activities		(12,569)	(12,899)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		–	113
Purchase of property, plant and equipment	17	(3,993)	(7,759)
Purchase of intangible assets	19	(347)	(539)
Interest received		46	83
Net cash used in investing activities		(4,294)	(8,102)
Cash flows from financing activities			
Proceeds from issue of shares	30	6,353	–
Costs of issuing shares		(704)	–
Proceeds from issue of share options		–	123
Principal elements of lease payments	18	(523)	(611)
Interest paid	12	(251)	(83)
Proceeds from borrowings		500	9,750
Financing option fees	25	(400)	(400)
Net cash generated from financing activities		4,975	8,779
Net (decrease) in cash and cash equivalents		(11,888)	(12,222)
Cash and cash equivalents at beginning of year	23	13,383	25,506
Exchange movements on cash and cash equivalents		(72)	99
Cash and cash equivalents at end of year	23	1,423	13,383

Notes

The notes on pages 33 to 56 are part of these consolidated financial statements.

Notes to the consolidated financial statements

1. GENERAL INFORMATION

Velocys plc is a company incorporated in the United Kingdom and registered in England and Wales. It operates through a number of subsidiaries in the UK and the US, and collectively they are referred to in the financial statements as the "Company" or "Velocys", with Velocys plc as "Velocys plc" or the "parent company". The nature of the Company's operations and its principal activities are set out in the Strategic report on pages 3 to 14. The parent company financial statements are included on pages 57 to 68.

2. ACCOUNTING POLICIES

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

Basis of preparation

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

The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities at fair value, where relevant. No such adjustments to financial assets or liabilities were required in 2023 or 2022.

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

Going concern

The financial position of the Company, its cash flows and liquidity position are described in the Strategic Report and notes to these financial statements. The Company made a loss in the year ended 31 December 2023 of £17.3 million and consumed net cash flows from operating activities of £12.5 million. The Company also:

- Raised £5.6 million (net of expenses) in cash from an equity fundraise in June 2023
- Received grant income of £14.7m from Advanced Fuels Fund (AFF)
- Received loan financing of £0.5 million in December 2023
- Invested £4.0 million in property, plant and equipment primarily related to the new technical facility in Columbus, Ohio
- Ended the year with cash and cash equivalents of £1.4 million

As set out in the note 33, the Company was acquired in January 2024 by Bidco whose shareholders are a consortium of global growth investors. To date, Bidco has received funding of £47.4m from its investors. After acquisition related costs and settlement of a bridging loan provided to the Company, Bidco had £39.3m of funding in place, which is sufficient to provide the Company with the funding it requires for a period of at least twelve months from the date of approval of these financial statements.

The Directors of Velocys plc, in assessing the Company's ability to continue as a going concern, took into account the following:

- Bidco set out its commitment to provide growth capital to the Company of up to \$40m in the Scheme of Arrangement which facilitated the acquisition of the Company. In fact, this amounted to approximately £39m (\$50m);
- The funds owned by Bidco are ringfenced and only to be provided to the Company and for minor administrative costs. Bidco has confirmed that it has no intention of repatriating funds to its shareholders or utilising funds for other investments;
- Funds provided to the Company will take the form of equity, with Velocys plc issuing new ordinary shares of 1 pence to Bidco;
- Bidco has provided a letter of support to the Company and confirmed that it will provide financial support to the Company such that the Company is able to operate as a going concern and to settle its liabilities as they fall due; and
- Bidco has approved the Company's budget for 2024 and its cash flow forecast through to Q1 2026, which is based on the most pessimistic view of revenue and the Company being unsuccessful in the ongoing reference projects' development capital raise. The Company is satisfied that it will not require funds in excess of those currently available within Bidco. Regular cash flow forecasts are prepared to monitor the Company's performance against approved budgets which show the Company operates within the set parameters. Bidco is managing currency translation foreign exchange risks to the forecast by holding a proportion of the funds in US dollars.

Taking account of the matters described above, the Directors are confident that the Company and the parent company will have sufficient funds to continue to meet their liabilities as they fall due for at least twelve months from the date of approval of these financial statements and therefore have prepared the financial statements on a going concern basis.

New accounting standards adopted by the Company

The Company has not applied any new accounting standards during the year ended 31 December 2023 or 2022.

New accounting standards in issue but not yet effective

At the date of authorisation of these consolidated financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB or IFRIC. None of these Standards or amendments to existing Standards have been adopted early by the Company and no Interpretations have been issued that are applicable and need to be taken into consideration by the Company at either reporting date.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Company's consolidated financial statements.

Financial risk management policies

Financial risk management policies are set out in note 29.

Capital management policies

Capital management policies are set out in note 29.

Notes to the consolidated financial statements continued

2. ACCOUNTING POLICIES CONTINUED

Material accounting policy information

CONSOLIDATION – SUBSIDIARIES

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

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

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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

Transactions and balances

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

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

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

Entities within Velocys

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

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

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

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

OTHER MATERIAL ACCOUNTING POLICY INFORMATION

Other material accounting policy information are included in the note to which they apply.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Inherent in the application of several of the accounting policies used in preparing the consolidated financial statements is the need for management to make judgements and estimates that affect the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses. Actual outcomes could differ from the estimates and assumptions used.

The accounting judgements and estimates that have a significant impact on the results of the Company are set out in the table below, and full details are provided in the relevant note to the financial statements.

	Note
Items involving a critical estimate or judgement	
Intangible assets – impairment assessment	19
Financing arrangement	25

4. SEGMENTAL INFORMATION

The Company's main operating decision-making unit is the Executive management team made up of the Chief Executive Officer and the Chief Financial Officer. The Executive management team reviews the Company's internal reporting in order to assess performance and allocate resources and has determined the operating segments based on these reports. The Executive management team considers that the business comprises a single activity, which is the design, development, marketing and sale of technology for the production of sustainable transport fuels. This includes facilitating project development by putting together partnerships with technology licensors, engineers, feedstock suppliers, the off takers who purchase the fuel and financing entities. The Executive management team reviews the Company's profit or loss and its cash flows, assets and liabilities on a consolidated basis. In carrying out these reviews, the Executive management team considers all material items of income and expenditure that are directly attributable to individual commercial projects and development programmes. The internal management reports do not allocate assets and liabilities or shared overheads to individual products or projects.

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

Notes to the consolidated financial statements continued

4. SEGMENTAL INFORMATION CONTINUED

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

The Executive management team assesses the performance of the operating segment based on a measure of operating loss.

The Company's operating segment operates in three main geographical areas, being US, Asia Pacific and Europe. Revenue is allocated based on the country in which the customer is located.

	2023 £'000	2022 £'000
Asia Pacific	61	157
Europe	–	84
Total revenue	61	241

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

	2023 £'000	2022 £'000
Customer 1	61	157
Customer 2	–	84
Total revenue	61	241

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

	2023 £'000	2022 £'000
Intangible assets	466	481
Property, plant and equipment	4,504	1,165
Right-of-use asset	4,684	291
Total	9,654	1,937

All other non-current assets were held in the United Kingdom and amounted to £11,172,000 (2022: £11,058,000).

5. REVENUE

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

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

If the entity is providing a single performance obligation in the form of an integrated set of activities, each contract is assessed to determine if it meets the criteria for recognition over time. This would require the contract to either transfer control of the combined output over time or for the entity to have an enforceable right of payment for the performance completed to date for activities that do not create an asset with alternative use.

	2023 £'000	2022 £'000
Engineering services	61	241
Total	61	241

Notes to the consolidated financial statements continued

6. ADMINISTRATIVE EXPENSES

	2023 £'000	2022 £'000
Employee benefit expense (note 7)	7,949	8,155
Project engineering and consultancy costs	14,884	3,171
Facilities and administrative costs	3,880	1,071
Patents and IP related costs	134	349
Insurance	474	629
Legal and professional services	1,256	1,338
Travel	484	356
Depreciation of property, plant and equipment (note 17)	548	478
Depreciation of right-of-use asset (note 18)	612	542
Amortisation of intangible assets (note 19)	186	174
Foreign exchange gains/losses	99	–
Total administrative expenses	30,506	16,263

Included in administrative expenses were research and development costs of £3,608,000 (2022: £2,440,000).

7. EMPLOYEE BENEFIT EXPENSE

Short-term employee benefits

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

Pensions

The Company operates various defined contribution pension schemes for its employees. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefit derived from the current and prior periods. The amount charged to the Consolidated income statement in respect of pension costs and other post-retirement benefits represents the contributions payable in the year. Differences between contributions payable and contributions actually paid are accrued. The Company has no further payment obligations once the contributions have been paid. As at 31 December 2023 the total amount accrued was £53,000 (2022: £39,000).

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

	2023 Number	2022 Number
Technical and engineering	21	19
General and administration	20	17
Total	41	36

Their aggregate remuneration comprised the following items.

	2023 £'000	2022 £'000
Wages and salaries	6,974	6,180
Short-term non-monetary benefits	574	649
Social security contributions and similar taxes	634	514
Defined contribution pension costs	302	313
Severance related costs	57	90
Share-based payments (note 15)	(554)	499
Total remuneration before reclassification of wages and salaries	7,987	8,245
Allocation of wages and salaries (Cost of goods & dilapidations)	(38)	(90)
Total employee benefit expense (note 7)	7,949	8,155

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

The reclassification of wages and salaries relates to employees who provide engineering services to customers.

Notes to the consolidated financial statements continued

8. DIRECTORS' REMUNERATION

Aggregate emoluments excluding contributions to defined contribution pension plans for current and former directors for the year ended 31 December 2023 totalled £1,188,000 (2022: £1,357,000). Pension contributions were £5,320 (2022: £23,190).

The highest paid director who held office in the year ended 31 December 2023, received the following remuneration in relation to the year ended 31 December 2023.

	2023 £'000	2022 £'000
Highest paid director		
Salary	322	316
Short-term non-monetary benefits	11	17
Bonus*	234	225
Defined contribution pension costs	5	11
Total	572	569

*2022 figure is restated to correctly reflect an aggregate amount of bonus paid to or receivable by the director.

None of the directors exercised share options in the year ended 31 December 2023 (2022: nil).

9. AUDITORS' REMUNERATION

	2023 £'000	2022 £'000
Payable to PricewaterhouseCoopers LLP and its associates:		
For the audit of the parent company and consolidated financial statements in respect of the current year	320	222
For the audit of the parent company and consolidated financial statements in respect of the prior year	11	15
For the audit of the financial statements of subsidiaries of the parent company in respect of the current year	-	40
For the review of the interim consolidated financial statements in respect of the current year	33	44
Total	364	321

10. OTHER INCOME

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

Income from government grants is recognised only when there is reasonable assurance that (a) the Company has complied with any conditions attached to the grant and (b) the grant will be received. The grant income recognised in 2023 was with regard to the UK Department for Transport's ("DfT") Advanced Fuels Fund ("AFF"). In the year ended 31 December 2022 the grant income was in respect of the UK Department for Transport's ("DfT") Green, Fuels, Green Skies ("GFGS") initiative.

	2023 £'000	2022 £'000
Income from government grants	14,699	1,511
Profit on sale of property, plant and equipment	-	113
Total	14,699	1,624

11. FINANCE INCOME

	2023 £'000	2022 £'000
Interest income on bank deposits	46	39
Interest income on customer late payments	-	44
Foreign exchange gains	-	1,276
Total	46	1,359

Notes to the consolidated financial statements continued

12. FINANCE COSTS

	2023 £'000	2022 £'000
Interest on lease liabilities	251	64
Interest on other financial liabilities	1,155	764
Foreign exchange losses	860	–
Total	2,266	828

13. INCOME TAX CREDIT

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

	2023 £'000	2022 £'000
Current tax:		
R&D tax charge relating to prior years	9	5
R&D tax credit relating to current year	(643)	(760)
Current tax total	(634)	(755)
Income tax total	(634)	(755)

Due to the availability of losses incurred in the year, there is no charge to corporation tax. The Company recognised £634,000 for R&D tax credits (2022: £755,000). The credit relating to the current year is on an accruals basis, which is an estimate of the amount to be claimed from HMRC based on the assessment of the Company's projects, to determine which ones qualify under HMRC's rules, and to estimate the level of allowable cost within each, based on the nature of costs.

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

	2023 £'000	2022 £'000
Loss before income tax	(17,979)	(13,954)
Tax calculated at domestic tax rates applicable to losses in the respective countries	(4,225)	(2,790)
Tax effects of:		
Expenses not deductible for tax purposes	715	90
Remeasurement of deferred tax for changes in tax rates	(93)	–
Unutilised tax losses for which no deferred tax asset is recognised	3,603	2,700
R&D tax charge relating to prior years	9	5
R&D tax credit relating to current year	(643)	(760)
Income tax total	(634)	(755)

The weighted average applicable tax rate was 23.5% (2022: 20.0%).

IAS 12, Income taxes, requires current and deferred income taxes to be measured based on the tax laws that are enacted or substantively enacted as of the balance sheet date of the relevant reporting period. Substantive enactment is achieved when any future steps in the enactment process are unlikely to change the outcome.

From 1 April 2023 the main rate of UK corporation tax increased from 19% to 25% on profits in excess of £250,000. A small profits rate of 19% applies to profits of £50,000 or less and for companies with profits in between these amounts there is a gradual increase in the effective corporation tax rate. This new law received Royal Assent on 10 July 2021, therefore current tax is calculated at 19% to 25% and deferred tax at 31 December 2023 is calculated at 25% (31 December 2022: 25%) based on an assessment of the applicable rate at which they are expected to reverse.

Unrecognised US deferred tax balances have been measured at 21% (recognised: Nil).

Notes to the consolidated financial statements continued

14. DEFERRED TAX

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

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

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

	2023 £'000	2022 £'000
Unrecognised Deferred tax assets		
Trading losses	(39,793)	(37,553)
Share based payments	—	(90)
Total	(39,793)	(37,643)

At 31 December 2023, the Company had a gross unrecognised deferred tax asset of £48,300,000 (2022: £37,553,000) arising from trading losses since incorporation. No recognition (2022: £nil) of the net deferred tax asset has been made at 31 December 2023 on the grounds of uncertainty over its recoverability in light of the Company's nascent revenue streams and commitment to continued investment in the development of its technology, and therefore there is no impact on the current or prior year income statement.

Of this unrecognised deferred tax asset £19,621,000 (2022: £23,801,000) is anticipated to remain available indefinitely to offset against future taxable trading profits of the entities in which the losses arose. The remainder has expiry dates between 2024 and 2037 (2022: 2023 and 2037).

The unrecognised deferred tax asset of £nil (2022: £90,000) in respect of share-based payments is calculated by reference to the intrinsic value of outstanding share options as at 31 December.

15. SHARE-BASED PAYMENTS

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

On 5 December 2023, the Company announced that it had reached agreement on the terms and conditions of a recommended cash acquisition of the entire issued ordinary share capital of Velocys plc. by Madison Bidco Limited to be implemented by way of a Court-sanctioned Scheme of Arrangement ("the Scheme") under Part 26 of the Companies Act 2006. The acquisition had implications for holders of vested and unvested share options in Velocys plc, who were notified on 20 December that a conditional exercise period would commence on 22 December and run until 9 January 2024.

During this period, all vested options could be conditionally exercised, the condition being that the acquisition of the whole of the share capital of Velocys plc by Madison Bidco Limited took place as expected. The terms of the conditional exercise period were that all non-vested options lapsed in 2023 at the start of this period, and that all vested options would either be exercised during the period or would lapse at the end of the period if they had not been exercised.

The fair value of options is charged to the income statement during the vesting period. If they do not vest, then the options have lapsed, and all amounts previously charged to the income statement for these options are reversed. This has led to a contribution being made to the income statement for 2023 of £554,000. As all of the 55,282,000 options granted during the year lapsed, there has been no effect on the income statement as a result of these options being granted. As such, the accounting risk associated with method of valuation and the assumptions used is much lower than it would otherwise be.

In relation to vested options, the terms are such that these options would either be exercised by 9 January 2024 or would lapse. As such, all options outstanding at 31 December 2023 are shown as lapsing in 2024.

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

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

At the end of each reporting period, for awards not containing a market condition the Company revises its estimates of the number of options that are expected to vest based on historical satisfaction of non-market vesting and service conditions. It recognises the impact of the revision to original estimates in the income statement with a corresponding adjustment to shareholders' equity.

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

Notes to the consolidated financial statements continued

15. SHARE-BASED PAYMENTS CONTINUED

The number of options outstanding at 31 December 2023 and the expense recognised in the Consolidated income statement was as follows.

	2023		2022	
	Options outstanding	Income statement £'000	Options outstanding	Income statement £'000
Employees UK/US (Special Awards)	9,223,332	(66)	16,453,768	137
LTIP (executive directors and senior management team)	18,602,947	(488)	39,503,754	362
Other (consultants)	183,125	–	183,125	–
Total	28,009,404	(554)	56,140,647	499

Employees UK/US

In 2023 and 2022, the Company awarded some of its UK and US employees (excluding the executive directors and non-executive directors) with a Special Award grant of options. The UK awards had advanced assurance from the HMRC for EMI qualification. The Special Award encompassed and superseded awarded options in new joiner employment contracts where those options had not yet been granted.

The Special Awards granted vest over a three-year period and expire after ten years. For those options granted to new starters, the vesting periods are one, two and three-years split equally. The options will normally lapse if the option holder ceases to hold an office or employment within the Company. For options granted in 2023, the exercise price set at the time of grant was 2.52p. For options granted in 2022, the exercise price ranged from 5.68p to 8.00p. Options are fair valued at grant date using the Black-Scholes model and are expensed over the vesting period.

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

	2023		2022	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	8.54p	16,453,768	10.45p	15,970,000
Granted	2.52p	4,500,000	6.89p	5,404,768
Forfeited or expired	9.14p	(11,730,436)	75.82p	(821,000)
Exercised	–	–	3.00p	(4,100,000)
At 31 December	4.50p	9,223,332	8.54p	16,453,768

All of the options outstanding at 31 December 2023, 9,223,332 were exercisable (2022: 9,833,333). The weighted average exercise price of the exercisable shares was 4.5p (2022: 9.69p).

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

Year of expiry	2023		2022	
	Range of exercise price	Weighted average exercise price	Number of options	Weighted average exercise price
2023	–	–	–	64.24p
2024	3.00p - 202.63p	4.50p	9,223,332	213.19p
2026	–	–	–	41.32p
2029	–	–	–	3.00p
2031	–	–	–	7.01p
2032	–	–	–	6.79p
Total	3.00 – 202.63p	4.50p	9,223,332	8.54p

The significant inputs to the Black-Scholes part of the overall model were as listed in the table below.

Notes to the consolidated financial statements continued

15. SHARE-BASED PAYMENTS CONTINUED

	2023	2022
Weighted average share price at grant date	2.48p	6.46p
Weighted average exercise price	2.52p	6.89p
Expected volatility	103.0%	102.1%
Weighted average annual risk-free rate	3.88%	1.31%
Dividend yield	0%	0%
Weighted average expected life	6.5 years	6.5 years

The total contribution recognised in the Consolidated income statement was £66,000 (2022: expense of £137,000).

LTIP options

Long term incentive options (also referred to as "LTIP" and the "Scheme" in the Directors' remuneration report) are awarded to executive directors and senior managers of the Company.

The fair value of the options is recognised from the start of the relevant service period to the end of the vesting period. In 2019, the Remuneration Committee introduced a new annual equity-based incentive scheme for executive directors and senior managers. Under the 2019 Scheme, executive directors and senior managers could be awarded (i) time-based share options and (ii) performance-based awards. In 2023 all awards were performance-based whereas in 2022 the awards were awarded in equal amounts between time-based and performance-based options.

In 2022 the time-based share options vest and become exercisable split equally on the first, second and third anniversary of the grant date, and expire after ten years. The exercise price of these options ranged from 4.5p to 8.0p with a weighted average of 6.3p. In 2023, there were no time-based grants. The options will normally lapse if the option holder ceases to hold an office or employment within the Company. Options are fair valued at the grant date using the Black-Scholes model and are expensed over the vesting period.

The performance awards vest and become exercisable in full on the third anniversary of the grant date provided the Company weighted average market capitalisation for the month preceding that third anniversary reaches a target value. For options granted in 2023, this is at least £52.5 million (2022: £156.8 million). The options expire after ten years. The options will normally lapse if the option holder ceases to hold an office or employment within the Company. Options are fair valued at the grant date using a combination of the Black-Scholes and the Monte-Carlo model and are expensed over the vesting period. Provided the performance target is achieved, the option exercise price is 2.5p (2022: 8.00p).

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

	2023		2022	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	8.01p	39,503,754	7.64p	44,198,567
Granted	2.50p	50,782,000	6.76p	17,473,514
Forfeited or expired	4.48p	(71,682,807)	6.27p	(22,168,327)
At 31 December	6.56p	18,602,947	8.01p	39,503,754

Of the 18,602,947 options outstanding at 31 December 2023, 18,602,947 were exercisable (2022: 16,552,804). The weighted average exercise price of the exercisable shares was 6.56p (2022: 9.40p).

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

	2023			2022	
Year of expiry	Range of exercise price	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
2023	—	—	—	159.00p	283,191
2024	1.00 - 163.50p	6.56p	18,602,947	161.00p	214,543
2025	—	—	—	1.00p	32,628
2029	—	—	—	4.75p	16,022,442
2031	—	—	—	7.86p	6,947,800
2032	—	—	—	6.64p	16,003,150
Total	1.00p - 163.50p	6.56p	18,602,947	8.01p	39,503,754

Notes to the consolidated financial statements continued

15. SHARE-BASED PAYMENTS CONTINUED

The 50,782,000 options granted during 2023 (2022: 17,473,514) were all performance-based (2022: 4,486,757). The fair value of these performance options was calculated using a combination of the Black-Scholes model and a Monte Carlo simulation. The Monte Carlo simulation was used to determine the Market Capitalisation of the Velocys group after 3 years. If the Market Capitalisation exceeded £52.5m (2022: £156.8m), then the options vest.

The significant inputs to the Black-Scholes part of the overall model were as listed in the table below.

	2023	2022
Weighted average share price at grant date	2.15p	6.63p
Weighted average exercise price	2.50p	6.76p
Expected volatility	101.3%	102.1%
Weighted average annual risk-free rate	4.98%	1.39%
Dividend yield	0%	0%
Weighted average expected life	4.5 years	6.5 years

The weighted average exercise price of the options granted in 2023 was 2.50p (2022: 6.76p).

The total contribution recognised in the Consolidated income statement for LTIP options granted to executive directors and employees was £488,883 in 2023 (2022: expense of £362,000).

Other share options

The Company has historically granted share options to a small number of consultants (non-employees) who provided a strategic service to the Company. No options have been granted to consultants since 2015. Options were granted either in respect of a completed service period, in which case they vested immediately, or in respect of a future service period, in which case they vested over periods of up to three years. They expire after ten years. Exercise prices range from 1.00p to the mid-market value of Velocys plc's ordinary shares on the day prior to grant. Options are fair valued at grant date using the Black-Scholes model (which is not the fair value of goods and services received). For a completed service period, fair value is expensed immediately. For a future service period, fair value is expensed over the vesting period.

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

	2023		2022	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	112.37p	183,125	104.15p	212,625
Forfeited or expired	–	–	53.10p	(29,500)
At 31 December	112.37p	183,125	112.37p	183,125

Of the options issued and outstanding at 31 December 2023, all 183,125 were exercisable (2022: 183,125). The weighted average exercise price of the exercisable shares was 112.37p (2022: 112.37p).

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

	2023			2022	
Year of expiry	Range of exercise price	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
2024	105.25p - 145.25p	112.37p	183,125	145.25p	21,375
2025	–	–	–	108.03p	161,750
Total	105.25p - 145.25p	112.37p	183,125	112.37p	183,125

No options have been granted to consultants in respect of 2023 and 2022.

No expense in relation to these options has been recognised in the Consolidated income statement for several years.

Share-based payments charge

The total contribution for share-based payments during the year was £554,000 (2022: expense of £499,000) of which a contribution of £265,000 (2022: expense of £219,000) related to options granted to executive directors; the remainder to other employees.

Notes to the consolidated financial statements continued

16. BASIC AND DILUTED LOSS PER SHARE

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

	2023	2022
Loss attributable to owners of Velocys plc (£'000)	(17,345)	(13,199)
Weighted average number of ordinary shares in issue ('000)	1,541,097	1,395,967
Basic and diluted loss per share (pence)	(1.13)	(0.95)

Diluted loss per share is calculated by adjusting the weighted average number of shares in issue to assume conversion of all potential dilutive shares. Share options have not been included in the number of shares used for the purpose of calculating diluted loss per share since these would be anti-dilutive for the period presented. At the end of 2023 and 2022 there were no other potentially dilutive instruments (see note 28). Details of share options are given in note 15.

17. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost, net of depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to working condition for its intended use.

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, which for plant and machinery is three to ten years. No depreciation is provided on land or assets under construction.

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

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

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

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

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

2023	Assets under construction £'000	Land £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2023	46	9,820	10,673	20,539
Additions	2,016	–	1,977	3,993
Disposals	–	–	(1,627)	(1,627)
Transfer between categories	(42)	–	42	–
Foreign exchange	(2)	–	(521)	(523)
At 31 December 2023	2,018	9,820	10,544	22,382
Accumulated depreciation and impairment				
At 1 January 2023	–	–	9,535	9,535
Charge for the year	–	–	548	548
Disposals	–	–	(1,616)	(1,616)
Foreign exchange	–	–	(464)	(464)
At 31 December 2023	–	–	8,003	8,003
Net book value				
At 31 December 2023	2,018	9,820	2,541	14,379

Notes to the consolidated financial statements continued

17. PROPERTY, PLANT AND EQUIPMENT CONTINUED

2022	Assets under construction £'000	Land £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2022	–	11,049	9,181	20,230
Additions	46	–	463	509
Disposals	–	(1,370)	(8)	(1,378)
Foreign exchange	–	141	1,037	1,178
At 31 December 2022	46	9,820	10,673	20,539
Accumulated depreciation and impairment				
At 1 January 2022	–	1,081	8,143	9,224
Charge for the year	–	–	478	478
Disposals	–	(1,205)	(8)	(1,213)
Foreign exchange	–	124	922	1,046
At 31 December 2022	–	–	9,535	9,535
Net book value				
At 31 December 2022	46	9,820	1,138	11,004

As at 31 December 2023, the gross carrying amount of fully depreciated property, plant and equipment still in use was £6,257,000 (2021: £8,173,000).

18. RIGHT-OF-USE ASSETS

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

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

To determine the incremental borrowing rate, the Company uses a build-up approach. This starts with a risk-free interest rate, adjusted for the credit risk for leases that do not have recent third party financing. Adjustments specific to the lease, e.g. term, country, currency and security, are then made to this risk free rate. Interest expense (included in finance costs) was £251,000 (2022: £64,000). The total cash outflow as a result of leasing activity was £736,000 (2022: £611,000).

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

The associated right-of-use assets are initially measured at an amount equal to the lease liability plus the present value of any anticipated dilapidation costs required at the end of the lease term. Any reassessment of the lease liability, such as at a lease extension, results in an equal adjustment in the net book value of the associated asset. The right-of-use assets are depreciated over the lease term on a straight-line basis and are subject to impairment in accordance with IAS 36. No impairment was recorded at 31 December 2023 and at 31 December 2022.

Notes to the consolidated financial statements continued

18. RIGHT-OF-USE ASSETS CONTINUED

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

2023	Buildings £'000	Total £'000
Cost		
At 1 January 2023	2,088	2,088
Additions	5,031	5,031
Disposals	(1,499)	(1,499)
Foreign exchange	(82)	(82)
At 31 December 2023	5,538	5,538
Accumulated depreciation		
At 1 January 2023	1,689	1,689
Charge for the year	612	612
Disposals	(1,499)	(1,499)
Foreign exchange	(68)	(68)
At 31 December 2023	734	734
Net book value		
At 31 December 2023	4,804	4,804

Additions and disposals in 2023

During 2023 two new operating sites were established, each under lease agreements, for the US Ohio and Houston locations. These new lease agreements were recognised as right-of-use assets, with the former sites being derecognised when vacated. The Oxford headquarters had its lease agreement extended for a further year.

The new Ohio site was acquired under a 15-year lease agreement, while the new Houston office was acquired under a 41-month agreement. The increase in right-of-use assets recognised as a result of these new agreements was £4,854,000 (2022: £66,000). These figures include anticipated future dilapidation costs. As a result, the increase in present value lease commitments was lower at £4,689,000 (2022: £60,000).

The Oxford headquarters lease extension for the additional year, resulted in an increase in right-of-use assets of £177,000 (2022: £267,000 – all locations).

The vacation of the former US operating sites resulted in the disposal of right-of-use assets, which were fully amortised. The cost base of these derecognised assets was £1,499,000 (2022: £181,000).

2022	Equipment £'000	Buildings £'000	Total £'000
Cost			
At 1 January 2022	162	1,548	1,710
Additions	–	394	394
Disposals	(181)	–	(181)
Foreign exchange	19	146	165
At 31 December 2022	–	2,088	2,088
Accumulated depreciation			
At 1 January 2022	121	1,089	1,210
Charge for the year	45	497	542
Disposals	(180)	–	(180)
Foreign exchange	14	103	117
At 31 December 2022	–	1,689	1,689
Net book value			
At 31 December 2022	–	399	399

Notes to the consolidated financial statements continued

18. RIGHT-OF-USE ASSETS CONTINUED

Analysis of lease liabilities	2023 £'000	2022 £'000
In one year or less	603	375
In more than one year but not more than fifteen years	4,167	51
Present value of lease liabilities	4,770	426
Current portion	603	375
Non-current portion	4,167	51

The undiscounted maturity for leased assets in one year or less is £626,000 (2022: £393,000) and in more than one year, but not more than fifteen £7,256,000 (2022: £59,000).

19. INTANGIBLE ASSETS

Goodwill

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

In-process technology

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

Patents and licences

Patents and licences 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.

Software

Purchased software is recorded at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over its estimated useful life or its license period, whichever is the shorter, typically 2 – 5 years.

Amortisation

The Company amortises intangible assets with a limited useful life, using a straight-line method.

Amortisation charges of £170,000 for patents and licences are included in administrative expenses (2022: £174,000). There were no amortisation charges recorded in respect of other classes of intangible assets during the year as their net book value was £nil (2022: £nil).

Impairment

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

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

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

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

Notes to the consolidated financial statements continued

19. INTANGIBLE ASSETS CONTINUED

Individual assets testing

The analysis performed at 31 December 2023 compared the carrying amount of intangible assets of £1.6m with the value of Velocys plc's equity based on the AIM-listed shares at this date, which was £3.9m. It is however notable that the Company's share price was significantly depressed at 31 December 2023 as it had been unable to raise equity finance on the public market to continue as a going concern and instead had recommended an offer to the Company's shareholders for the Company to be acquired under a scheme of arrangement. A consortium of private equity funds were committed to providing the Company with the growth capital required to support it through to commercial revenues and positive cashflows.

CGU testing

For the impairment testing of the single identified CGU, the Company, the recoverable amount is typically determined by comparing the carrying amount of the Company's total net assets with the fair value of the business, by reference to the value of Velocys plc's market capitalisation. As explained above, unique circumstances at the year end led to the share price no longer being an accurate indicator of fair value.

Critical accounting judgements and estimates

In assessing whether there is any indication that an asset may be impaired or whether a reversal of prior year impairments is required, the Company considers, as a minimum, a number of indicators. In 2023, the Company considered:

- At 31 December 2023, whether the carrying amount of the Company's net assets was above or below Velocys plc's market capitalisation and whether the market capitalisation value was understated due to financing difficulties and the proposed takeover
- Whether significant increases or decreases in the market price of the assets had occurred;
- Whether there were significant favourable or adverse changes in the extent or manner in which the assets are being used; and
- Whether there were significant favourable or adverse changes in the global market for sustainable aviation fuel and global economic factors more generally.

Based on the 2023 analysis, the Company concluded that no further impairment was required as the acquiring company's commitment to provide growth capital of at least \$41m in addition to the acquisition cost of the Company and transaction costs involved, demonstrated that fair value was significantly more than the Company's net assets of £5.1m and the market capitalisation value of £3.9m. The Company's technology was the subject of extensive due diligence from the consortium of growth investors. With the IP protection, state of readiness of its new manufacturing facility, and the launch of Series A financing for the reference projects in March 2024, together with further positive developments in government mandates, the business is in a stronger position to deliver its commercial goals.

As detailed in the accounting policy set out above, the Company is considered to operate as a single CGU. Whilst the Company's strategy and biorefinery development plans are clearly defined, management consider that it is still too early to rely upon its revenue forecasts for long-term discounted cash flow analysis. Consequently, the CGU's recoverable amount has been determined based on an assessment of its fair value less costs of disposal, by reference to the total post growth capital valuation consistent with the view of the new shareholder.

Management also concluded that at 31 December 2023 there were insufficient indicators that impairment losses previously recognised had reversed.

2023	Goodwill £'000	In-process technology £'000	Patents and licences £'000	Software £'000	Total £'000
Cost					
At 1 January 2023	7,398	23,681	2,612	119	33,810
Additions	–	–	347	–	347
Disposals	–	–	(41)	(9)	(50)
Foreign exchange	–	–	(61)	(1)	(62)
At 31 December 2023	7,398	23,681	2,857	109	34,045
Accumulated amortisation and impairment					
At 1 January 2023	7,398	23,681	1,111	96	32,286
Charge for the year	–	–	170	16	186
Disposals	–	–	(23)	(9)	(32)
Foreign exchange	–	–	(38)	–	(38)
At 31 December 2023	7,398	23,681	1,220	103	32,402
Net book value					
At 31 December 2023	–	–	1,637	6	1,643

Note

Disposals represent renewal fees relating to patents no longer being capitalised

Notes to the consolidated financial statements continued

19. INTANGIBLE ASSETS CONTINUED

2022	Goodwill £'000	In-process technology £'000	Patents and licences £'000	Software £'000	Total £'000
Cost					
At 1 January 2022	7,398	23,681	2,491	101	33,671
Additions	–	–	522	17	539
Disposals	–	–	(514)	–	(514)
Foreign exchange	–	–	113	1	114
At 31 December 2022	7,398	23,681	2,612	119	33,810
Accumulated amortisation and impairment					
At 1 January 2022	7,398	23,681	1,410	96	32,585
Charge for the year	–	–	174	–	174
Disposals	–	–	(514)	–	(514)
Foreign exchange	–	–	41	–	41
At 31 December 2022	7,398	23,681	1,111	96	32,286
Net book value					
At 31 December 2022	–	–	1,501	23	1,524

20. COMMITMENTS AND CONTINGENCIES

(a) Commitments

Commitments are not held on the Company's balance sheet as these are executory arrangements that relate to amounts that the Company is contractually required to pay in the future as long as the other party meets its contractual obligations.

The Company committed to making a contribution of £1,776,000 towards the construction costs of a new leasehold building in Ohio which has now been built and houses the Company's manufacturing and technical facilities. The Company provided a letter of credit in respect of this commitment, with cash provided as collateral. The amount presented as restricted cash (note 23) as at 31 December 2023, represents the final payment made post year end.

The Company has also paid deposits to suppliers of £971,000 (2022: £1,127,000) (note 22) for property, plant and equipment comprising long lead-time manufacturing and catalysis laboratory equipment in the year ended 31 December 2023, with commitments to make further payments of £820,000 (2022: £2,087,000) during 2024 under these contracts.

Therefore, total capital expenditure contracted for during the year ended 31 December 2023, but not yet recognised was as follows:

	2023 £'000	2022 £'000
Contribution to new building	–	879
Manufacturing equipment	562	1,866
Catalysis laboratory equipment	258	221
Total	820	2,966

(b) Contingent liabilities

The Company has no contingent liabilities as at 31 December 2023 (2022: Enil).

Notes to the consolidated financial statements continued

21. INVENTORIES

Inventories are stated at the lower of cost or net realisable value less provision for impairment. Cost is determined on a first-in, first-out basis and includes transport and handling costs whilst excluding variable payments contingent on future events. 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.

	2023 £'000	2022 £'000
Raw materials and consumables	117	373
Work in progress	399	–
Finished goods	714	482
Total	1,230	855

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

As at 31 December 2023, the Company had a total inventory provision of £805,000 (2022: £855,000). The Company recorded Enil (2022: Enil) related to slow moving inventory in the Administrative expenses line of the Consolidated income statement.

22. TRADE AND OTHER RECEIVABLES

	2023 £'000	2022 £'000
Prepaid costs	1,638	2,471
Grants receivable	1,267	–
Other receivables	672	115
Total	3,577	2,586

Prepaid costs at 31 December 2023 include part payments for manufacturing and catalysis laboratory equipment yet to be delivered at 31 December 2023 and the contribution to the new building in Ohio (see note 20).

The Grants receivable as at 31 December 2023 (2022: nil) were in respect of the Advanced Fuels Fund ("AFF") grant awarded to the Altato project. Other receivables consist of vendor deposits and sales taxes recoverable.

23. CASH AND CASH EQUIVALENTS

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

	2023 £'000	2022 £'000
Unrestricted cash	1,223	12,428
Restricted cash	200	955
Total	1,423	13,383

Restricted cash as at 31 December 2023 relates to the total undrawn amount of a cash secured letter of credit provided by the Company as part of its commitment towards the construction costs of the new leasehold premises (see note 20).

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

	2023 £'000	2022 £'000
UK sterling denominated	580	10,202
US dollar denominated	842	3,180
Euro denominated	1	1
Total	1,423	13,383

Notes to the consolidated financial statements continued

24. PROVISIONS

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably

Restoration provisions

Provisions for the costs to restore leased assets to their original condition, as required by the terms and conditions of the lease, are recognised when the obligation is incurred, either at the commencement date or as a consequence of having used the underlying asset during a particular period of the lease, at managements' best estimate of the expenditure that would be required to restore the assets. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

	2023 £'000	2022 £'000
Restoration provision	184	229
Total	184	229

	2023 £'000	2022 £'000
Current	7	216
Non-current	177	13
Total	184	229

	2023 £'000	2022 £'000
At 1 January	229	–
Additional provision in the year	171	229
Utilised provision in the year	(216)	–
At 31 December	184	229

The restoration provision is in respect of the Company's leased premises in Columbus (Ohio), Houston (Texas) and Oxford (UK). Management have estimated the costs of restoring the buildings to the standard required, and in doing so have made cost estimates where quotes or purchase orders are not already in place. Whilst it is not possible to identify all rectification works whilst the building remains in use, management do not expect the total costs to exceed the estimated provision.

25. FINANCIAL LIABILITIES

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at fair value through profit and loss, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Critical accounting judgements and estimates

In March 2022, the Company received £9,750,000 from Blackmead Infrastructure Limited, a subsidiary of Foresight Group LLP ("Foresight") as cash consideration for Foresight's purchase of 100% of the ordinary shares of Rula Developments Immingham Limited ("RDIL").

The Company has determined that the cash consideration of £9,750,000, which enabled the Company to settle the £7,250,000 deferred consideration due from the acquisition of RDIL in December 2021 (see note 4), meets the criteria of a financial liability measured subsequently at amortised cost using the effective interest method.

The Company signed a Call Option agreement with Foresight which gives it the right to re-purchase RDIL over a period of up to three years from the effective date of 23 March 2022. If the option is exercised on or before the 2nd anniversary date, the purchase price due to Foresight is £11,250,000. If the option is exercised after the 2nd anniversary date and before the expiry date, the purchase price increases to £11,750,000. Management's current expectation is that the full 36 month option period will apply and therefore the calculation at amortised cost is based on this scenario.

Quarterly option fees of £100,000 are due throughout the option period. Because the Company maintains significant control over RDIL's asset, namely the Immingham development site, throughout the option period, management have assessed that the most appropriate accounting treatment is to continue recognising the asset and to account for a financing liability to Foresight.

Notes to the consolidated financial statements continued

25. FINANCIAL LIABILITIES CONTINUED

Financial liabilities at amortised cost	2023 £'000	2022 £'000
At 1 January	10,095	–
Initial fair value recognised	500	9,750
Interest expense	1,155	745
Payments made	(400)	(400)
As at 31 December	11,350	10,095

	2023 £'000	2022 £'000
Current	882	376
Non-current	10,468	9,719
Total	11,350	10,095

26. TRADE AND OTHER PAYABLES

	2023 £'000	2022 £'000
Trade payables	1,228	289
Other taxation and social security	101	77
Accruals	4,565	2,230
Total	5,894	2,596

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 (2022: 60 days or less).

27. OTHER LIABILITIES

Other current liabilities of £105,000 as at 31 December 2023 (2022: £322,000) comprised amounts owed by the Company in respect of the various corporate insurance policies covered by a financing arrangement. Non-current liabilities of £157,000 as at 31 December 2023 (2022: £165,000) are in respect of a grant received from JobsOhio which has been deferred until the employment commitments have been fulfilled.

28. DEFERRED REVENUE

Deferred revenue consists of contract liabilities as a result of instances in which the Company receives payments from customers prior to the satisfaction of the performance obligation, as defined in IFRS 15. Deferred revenue is allocated to the respective performance obligations based on relative transaction prices and is recognised as the performance obligation is satisfied.

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

	Total £'000
At 1 January 2022	326
Released deferred revenue	(120)
At 31 December 2022	206
Released deferred revenue	(61)
At 31 December 2023	145

The deferred revenue remaining at 31 December 2023, is shown on the balance sheet as a current liability as the work is expected to be completed within twelve months.

Details of the accounting treatment of revenues and the deferred revenue released in 2023 are provided in note 5.

Notes to the consolidated financial statements continued

29. FINANCIAL INSTRUMENTS

Financial assets

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

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

The Company's principal financial asset is cash and cash equivalents which comprise bank current accounts and fixed term deposit accounts on fixed terms of interest. Typically, the fixed term deposits range from overnight deposits to three monthly deposits, depending on the Company's working capital requirements.

Trade and other receivables (see note 22) are classified as either non-current assets or current assets. At 31 December 2023 all receivables were current (2022: current).

Financial liabilities

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

Financial liabilities at amortised cost

Financial liabilities at amortised cost include Trade payables (see note 26), all of which are current liabilities, as well as lease liabilities and other financial liabilities. Trade payables are stated at fair value and subsequently held at amortised cost using the effective interest method. Interest bearing loans and overdrafts are initially recorded at the fair value of proceeds received net of direct issue costs, and thereafter at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are recognised in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financial risks

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

Liquidity

The Company's cash usage is significant versus prospective future cash inflows and Velocys is reliant on the continuing support of its shareholder. The timing of net positive cash flows is difficult to predict given the variables which affect the speed with which the Company's reference projects and other clients' projects can proceed through engineering and construction phases and therefore generate recurring cash inflows.

Cash flow forecasts are reviewed monthly, cash balances are held immediately available as necessary, and surplus funds are placed on time deposits of varying duration.

Cash inflows may come from one, or a combination of, the following sources:

- Third-party revenues from engineering services, licensing and technology hardware sales;
- Strategic investment of development capital into either or both of the Bayou Fuels and Altalto projects, expected during 2024; and
- Government grants, namely the Advanced Fuels Fund in 2023 and 2024.

The Company's revenue stream relies on the projects incorporating its technology, securing project finance. The Company's strategy is to take a pro-active role in this process and it has appointed a global financial advisor with expertise in project financing to support the financing plans for the types of projects it is developing.

Capital management

The Company's capital management objectives are:

- To ensure the Company's ability to continue as a going concern;
- To preserve sufficient funds to protect it against unforeseen events and risks; and
- To pursue opportunities that can deliver shareholder returns.

The Company does not currently pay any dividends due to the net loss making position.

The Company prepares operational budgets and cash flow forecasts which it discusses with its sole shareholder to set out its funding requirements. The shareholder provides cash funding to the Company based on approved forecasts and monitors accuracy of forecasts and potential risks which would impact the quantum of the funding required.

Exchange rates

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

The use of financial derivatives is governed by the Company's treasury policies, which are approved by the Board, and provide a set of written principles for the management of these risks. No financial derivatives were used during 2023 or 2022.

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

	2023		2022	
	Income statement £'000	Equity £'000	Income statement £'000	Equity £'000
GBP: USD exchange rate +/- 10%	71	103	207	483

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

Notes to the consolidated financial statements continued

29. FINANCIAL INSTRUMENTS CONTINUED

	2023 £'000	2022 £'000
Cash and cash equivalents	843	3,180
Trade receivables	366	366
Trade payables	256	135

Credit

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

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

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

Interest rates

Variations in interest rates affect only Velocys' cash holdings, as interest on its borrowing is payable at a fixed rate.

As far as the cash flow forecast allows for certainty, excess funds are placed on fixed rate term deposits. The effect of interest rates on exchange rates is not anticipated.

Financial assets are as follows.

	31 December 2023		
	Assets at amortised costs £'000	Assets at fair value through profit or loss £'000	Total £'000
Assets			
Cash and cash equivalents	1,423	–	1,423
Grants receivable	1,267	–	1,267
Other receivables	672	–	672
Total	3,362	–	3,362

	31 December 2022		
	Assets at amortised costs £'000	Assets at fair value through profit or loss £'000	Total £'000
Assets			
Cash and cash equivalents	13,383	–	13,383
Other receivables	115	–	115
Total	13,498	–	13,498

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

	2023		2022	
Short-term bank deposits, cash at bank and in hand	£'000	%	£'000	%
Aa2	20	1	7,913	59
Aa3	–	–	2	–
A1	1,403	99	5,468	41
Total	1,423	100	13,383	100

Notes to the consolidated financial statements continued

29. FINANCIAL INSTRUMENTS CONTINUED

Financial liabilities are as follows.

31 December 2023		
	Financial liabilities at amortised cost £'000	Total £'000
Liabilities as per balance sheet		
Trade and other payables excluding non-financial liabilities	1,228	1,228
Accruals	4,565	4,565
Lease liabilities	4,770	4,770
Financial liabilities	11,350	11,350
Other liabilities	262	262
Total	22,175	22,175

31 December 2022		
	Financial liabilities at amortised cost £'000	Total £'000
Liabilities as per balance sheet		
Trade and other payables excluding non-financial liabilities	289	289
Accruals	2,230	2,230
Lease liabilities	426	426
Financial liabilities	10,095	10,095
Other liabilities	487	487
Total	13,527	13,527

The contractual maturity of financial liabilities is as follows.

	2023 £'000	2022 £'000
Within one year	7,007	3,947
Within two to five years	15,168	9,935
Total	22,175	13,882

The financial liabilities payable within one year, consisting primarily of trade payables and year end accruals, will be paid in accordance with the terms of the agreements, generally 30 to 60 days. Details of Financial liabilities are disclosed in note 25.

Notes to the consolidated financial statements continued

30. CALLED UP SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

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

	Number of shares* (thousands)	Ordinary shares £'000	Share Premium £'000
At 1 January 2022	1,393,571	13,936	221,059
Proceeds from exercise of options	4,100	41	82
At 31 December 2022 and 1 January 2023	1,397,671	13,977	221,141
Proceeds from share issue	254,128	2,541	3,812
Expenses of share issues	—	—	(704)
At 31 December 2023	1,651,799	16,518	224,249

Notes

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

Ordinary shares

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

In June 2023, Velocys completed a gross fundraise of £6.3m (£5.6m net of fees and expenses). This constituted a Placing and Open Offer of ordinary shares at a price of 2.5 pence. These shares represented 9% of the enlarged ordinary share capital.

A total of 28,009,404 (2022: 56,249,405) options to subscribe for ordinary shares of Velocys plc have been granted and are outstanding at 31 December 2023 under the employee option schemes operated within the Company and contracts for options granted to a limited number of consultants. Details are given in note 15.

Reserves

Foreign exchange reserve relates to the exchange differences arising from the retranslation of the results and opening net assets of foreign subsidiaries. Changes in the reserve are included in other comprehensive income. At 31 December 2023, the Company's foreign exchange reserve was a credit balance of £3,389,000 (2022: £2,740,000).

The share-based payment reserve records the IFRS 2 charge for equity settled share-based payment awards. At 31 December 2023, the Company's share-based payment reserve was £683,000 (2022: £3,164,000).

31. NET CASH RECONCILIATION

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

	2023 £'000	2022 £'000
Cash and cash equivalents	1,423	13,383
Lease liabilities	(4,770)	(426)
Financial liabilities	(11,350)	(10,095)
Net cash	(14,697)	2,862
Cash and cash equivalents	1,423	13,383
Gross debt – fixed interest rate	(16,120)	(10,521)
Net cash	(14,697)	2,862

Notes to the consolidated financial statements continued

31. NET CASH RECONCILIATION CONTINUED

Liabilities from financing activities					
	Financial liabilities £'000	Leases £'000	Sub-total £'000	Cash/bank overdraft £'000	Total £'000
Net (debt)/cash as at 1 January 2022	–	(586)	(586)	25,506	24,920
Cash flows	(9,350)	217	(9,133)	(12,222)	(21,355)
Interest	(745)	–	(745)	–	(745)
Foreign exchange adjustments	–	(57)	(57)	99	42
Net (debt)/cash as at 31 December 2022	(10,095)	(426)	(10,521)	13,383	2,862
Cash flows	(100)	774	674	(11,868)	(11,194)
Right-of-use lease asset non-cash movements	–	(4,867)	(4,867)	–	(4,867)
Interest	(1,155)	(251)	(1,406)	–	(1,406)
Foreign exchange adjustments	–	–	–	(92)	(92)
Net (debt)/cash as at 31 December 2023	(11,350)	(4,770)	(16,120)	1,423	(14,697)

32. RELATED PARTIES

In the year ended 31 December 2023, Lansdowne Partners (UK) LLP, a substantial shareholder of the Company has subscribed for a total of 71,405,393 placing shares at the placing price of 2.5 pence per share. The directors, having consulted with the Company's nominated advisor, consider that the terms of the related party transaction were fair and reasonable. Certain directors of the Company, being Henrik Wareborn, Philip Sanderson, Philip Holland, Ann Markey and Thomas Quigley, all of which are deemed to be a related party pursuant to the AIM Rules, have subscribed for an aggregate of 2,400,000 placing shares at the placing price of 2.5 pence per share.

With the exception of transactions between the Company and its wholly owned subsidiaries, there were no material related party transactions in the year ended 31 December 2023.

33. POST FINANCIAL POSITION EVENTS

Acquisition of the Company by Madison Bidco Limited

On 5 December 2023, the boards of directors of Madison Bidco Limited ("Bidco") and Velocys plc announced that they had reached agreement on the terms and conditions of a recommended cash acquisition of the entire issued ordinary share capital of Velocys plc.

The acquisition was implemented by way of a Court-sanctioned Scheme of Arrangement ("the Scheme") under Part 26 of the Companies Act 2006. On 8 January 2024, the Scheme was approved by the requisite majority of shareholders and on 12 January 2024 the Court sanctioned the Scheme. The Scheme became effective on 17 January 2024, following the delivery of the Court Order to the Registrar of Companies.

Dealings in Velocys ordinary shares on AIM were suspended on 17 January 2024 when an application was made to the London Stock Exchange for the cancellation of admission to trading of Velocys ordinary shares on AIM. This took effect on 18 January 2024. Shareholders on the register of members on 16 January 2024 were entitled to receive 0.25 pence in cash per ordinary share.

Velocys plc statement of financial position

As at 31 December 2023

	Note	2023 £'000	2022 £'000
Assets			
Non-current assets			
Investments in subsidiaries	10	9,244	9,445
Property, plant and equipment	11	19	19
Right-of-use asset	12	120	108
		9,383	9,572
Current assets			
Trade and other receivables	13	30,498	18,855
Current income tax asset	8	319	626
Cash and cash equivalents		478	9,333
		31,295	28,814
Total assets		40,678	38,386
Liabilities			
Non-current liabilities			
Provisions		(7)	(7)
		(7)	(7)
Current liabilities			
Trade and other payables	14	(6,064)	(1,054)
Lease liabilities	12	(123)	(107)
Other liabilities	15	(506)	(197)
		(6,693)	(1,358)
Total liabilities		(6,700)	(1,365)
Net assets		33,978	37,021
Equity			
Called up share capital	17	16,518	13,977
Share premium account	17	224,249	221,141
Share-based payment reserve	17	683	3,137
Accumulated losses		(207,472)	(201,234)
Total equity		33,978	37,021

The notes on pages 60 to 68 are part of these parent company financial statements.

The parent company's loss on ordinary activities after tax was £8,138,000 (2022: £6,709,000)

The financial statements on pages 57 to 68 were approved and authorised for issue by the Board of Directors on 25 July 2024 and signed on its behalf below by:



Henrik Wareborn
Chief Executive Officer
Company number 05712187

Velocys plc statement of changes in equity

For the year ended 31 December 2023

	Called up share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 2022	13,936	221,059	2,638	(194,525)	43,108
Net loss for the year	-	-	-	(6,709)	(6,709)
Total comprehensive expense	-	-	-	(6,709)	(6,709)
Transactions with owners					
Share-based payments – value of employee services	-	-	499	-	499
Proceeds from options exercised	41	82	-	-	123
Total transactions with owners	41	82	499	-	622
Balance at 31 December 2022	13,977	221,141	3,137	(201,234)	37,021
Net loss for the year	-	-	-	(8,138)	(8,138)
Total comprehensive expense	-	-	-	(8,138)	(8,138)
Transactions with owners					
Share-based payments – value of employee services	-	-	(554)	-	(554)
Transfer from share-based payments reserve	-	-	(1,900)	1,900	-
Net proceeds from share issues	2,541	3,108	-	-	5,649
Total transactions with owners	2,541	3,108	(2,454)	1,900	5,095
Balance at 31 December 2023	16,518	224,249	683	(207,472)	33,978

The notes on pages 60 to 68 are part of these parent company financial statements.

Velocys plc statement of cash flows

For the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Cash flows from operating activities			
Operating loss		(8,647)	(9,721)
Depreciation		176	147
Impairment of loans due from subsidiaries	4	36	2,327
Share based payments charge		(353)	298
Share based payments charge to subsidiaries		202	–
Changes in working capital:			
Trade and other receivables		(223)	–
Trade and other payables		5,010	(87)
Other liabilities		(197)	(250)
Cash consumed by operations		(3,996)	(7,286)
Tax credit received		626	802
Net cash (used in)/generated from operating activities		(3,370)	(6,484)
Cash flows from investing activities			
Loans advanced to subsidiary undertakings		(11,420)	395
Purchase of property, plant and equipment		(11)	(17)
Interest received		17	–
Net cash used in investing activities		(11,414)	378
Cash flows from financing activities			
Proceeds from issue of shares	17	6,353	–
Costs of issuing shares	17	(704)	–
Proceeds from exercise of options		–	123
Principal elements of lease payments		(157)	(165)
Interest paid		(6)	–
Proceeds from borrowings		500	–
Net cash generated from/(used in) financing activities		5,986	(42)
Net movement in cash and cash equivalents		(8,798)	(6,148)
Cash and cash equivalents at beginning of the year		9,333	15,395
Exchange movements on cash and cash equivalents		(57)	86
Cash and cash equivalents at end of the year		478	9,333

The notes on pages 60 to 68 are part of these parent company financial statements.

Notes to the financial statements of Velocys plc

1. GENERAL INFORMATION

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

2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these parent company financial statements are the same as those of the Company unless otherwise specified. An additional accounting policy for the parent company, in respect of its investments in subsidiaries, is disclosed in note 10. The policies have been consistently applied to each year presented unless otherwise stated.

Basis of preparation

The basis of preparation is the same as the Company, as set out on page 28 of the consolidated financial statements. The parent company has taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate income statement and related notes and not to publish a separate statement of other comprehensive income. The comprehensive loss for the parent company for the year was £8,138,000 (2022: £6,709,000).

Going concern

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

Accounting developments

New and amended standards adopted by the parent company

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

Financial risk management policies

Financial risk management policies are set out in the Strategic report on pages 3 to 14, and in note 29 of the consolidated financial statements.

Capital management policies

Capital management policies are set out in note 29 of the consolidated financial statements.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Item of critical estimate	Note
Investment in subsidiaries - impairment assessment	10
Trade and other receivables - expected credit loss analysis	13

4. EXCEPTIONAL ITEMS

Items that are significant by virtue of their size or nature, which are considered non-recurring are classified as exceptional items. They include, for instance, impairments to the parent company's loans due from subsidiaries. Exceptional items are included within the parent company income statement (which is not disclosed) and are highlighted separately in the notes to the financial statements.

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

	2023 £'000	2022 £'000
Impairment of loans due from subsidiaries	(36)	(2,327)
Total	(36)	(2,327)

At the end of 2023 and 2022, the parent company reviewed for impairment its investments in subsidiaries by reference to the respective closing market capitalisation value. It concluded that no impairment was required at 31 December 2023 or at 31 December 2022 as the market capitalisation value exceeded the book value of its investments in subsidiaries. The parent company recorded a total loss allowance at 31 December 2023 of £6,230,000 (2022: £6,194,000) in respect of loans made to subsidiaries, following an assessment of expected credit losses. Further details are set out in note 13.

Notes to the financial statements of Velocys plc continued

5. REVENUE

The parent company plans to generate revenue through contracts with its subsidiary companies to provide a licence for the use of its intellectual property associated with the catalyst and reactors both of which have been specifically designed and over which the parent company and its subsidiaries hold a significant number of patents.

For the year ended 31 December 2023, the parent company recognised royalty revenue of £nil (2022: £nil).

6. EMPLOYEE BENEFIT EXPENSE

Short-term employee benefits

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

Pensions

The parent company operates various defined contribution pension schemes for its employees. The amount charged to the income statement in respect of pension contributions is the contributions payable in the year. Differences between contributions payable and contributions actually paid are accrued. The parent company has no further obligations once the contributions have been paid. As at 31 December 2023, the total amount accrued was £13,000 (2022: £10,000).

Employees

The average monthly number of employees (including executive directors) was as follows.

	2023 number	2022 number
Administration	11	8
Total average headcount	11	8

Their aggregate remuneration comprised the following items.

	2023 £'000	2022 £'000
Wages and salaries	2,805	2,376
Severance related costs	-	218
Short-term non-monetary benefits	67	124
Social security contributions and similar taxes	325	286
Defined contribution pension costs	75	78
Share-based payments granted to directors and employees of the parent company	(354)	312
Total remuneration	2,858	3,294

Share-based payments relate to directors and employees of Velocys plc only. For details of the charge applicable to subsidiaries of the parent company, please refer to note 10.

For additional information related to Share-based payments, see note 15 to the consolidated financial statements.

Directors' remuneration

Please refer to note 8 of the consolidated financial statements for details of the remuneration paid to directors of the parent company.

7. AUDITORS' REMUNERATION

Details of remuneration paid for the audit of the parent company are disclosed in note 9 to the consolidated financial statements.

Notes to the financial statements of Velocys plc continued

8. INCOME TAX

	2023 £'000	2022 £'000
Current tax		
R&D tax credit relating to prior years	(1)	(14)
R&D tax credit relating to current year	(318)	(626)
Current tax total	(319)	(640)
Income tax total	(319)	(640)

Due to the availability of losses incurred in the year, there is no charge to corporation tax.
The parent company recognised £319,000 for R&D tax credits in 2023 (2022: £640,000).

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

	2023 £'000	2022 £'000
Loss before income tax	(8,459)	(7,349)
Tax calculated at domestic tax rates applicable to losses	(1,990)	(1,396)
Tax effects of:		
Expenses not deductible for tax purposes	477	35
Impairment loss not deductible for tax purposes	–	442
Remeasurement of deferred tax for changes in tax rates	(81)	–
Unutilised tax losses	1,594	919
R&D tax credit relating to prior years	(1)	(14)
R&D tax credit relating to current year	(318)	(626)
Income tax total	(319)	(640)

In 2023 and 2022, the impairment loss not deductible for tax purposes represents the loss allowance recorded on loans due from subsidiaries as described in notes 4 and 10.

The applicable tax rate was 23.5% (2022: 19.0%).

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

9. DEFERRED TAX

The parent company has not recognised a deferred tax asset or liability in 2023 (2022: £nil).

	2023 £'000	2022 £'000
Unrecognised – Deferred tax assets		
Trading losses	(12,079)	(10,961)
Share based payments	–	(90)
Total	(12,079)	(11,051)

At 31 December 2023, the parent company had a net unrecognised deferred tax asset of £12,079,000 (2022: £10,961,000) arising from trading losses

Notes to the financial statements of Velocys plc continued

9. DEFERRED TAX CONTINUED

since incorporation. No recognition of the net deferred tax asset has been made at 31 December 2023 (2022: £nil) on the grounds of uncertainty over its recoverability in light of the Company's nascent revenue streams and commitment to continued investment in the development of its biorefineries, and therefore there is no impact on the current or prior year's income statement.

100% of the unrecognised deferred tax asset in respect of trading losses (2022: 100%) is anticipated to remain available indefinitely to offset against future taxable trading profits.

The unrecognised deferred tax asset of £nil (2022: £90,000) in respect of share-based payments is calculated by reference to the intrinsic value of outstanding share options as at 31 December.

10. INVESTMENTS IN SUBSIDIARIES

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

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

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

Critical estimates and judgements

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

An impairment assessment was carried out on the parent company's investment in subsidiaries at 31 December 2023. Typically, Velocys plc used the total value of its equity based on the AIM-listed shares of Velocys plc for calculating the recoverable amount. However, there were special circumstances at 31 December 2023 impacting the AIM share price as the parent company was in the process of being acquired under a scheme of arrangement by a consortium of private equity funds. Therefore, instead, testing for impairment used the post growth capital valuation supported by the new shareholder's commitment to fund the parent company through to generating commercial revenue. This was assessed to be higher than the £9.2m carrying value of the investments in subsidiaries at 31 December 2023.

The parent company also decided not to reverse prior year impairments at 31 December 2023.

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

	2023		2022	
	Capital contributions to subsidiaries £'000	Total investment in subsidiaries £'000	Capital contributions to subsidiaries £'000	Total investment in subsidiaries £'000
Investments in subsidiaries				
At 1 January	9,445	9,445	9,244	9,244
Capital contributions - in respect of share based payments	(201)	(201)	201	201
At 31 December	9,244	9,244	9,445	9,445

Notes to the financial statements of Velocys plc continued

10. INVESTMENTS IN SUBSIDIARIES CONTINUED

Velocys plc has direct investments in the following subsidiary undertakings.

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

The parent company has given a guarantee to Velocys Technologies Ltd (Registration number 05258554) which exempts the subsidiary from the requirements of the Companies Act 2006 relating to the audit of individual accounts by virtue of s479A.

The following companies are indirectly owned subsidiaries of the parent company whose immediate parent is not Velocys plc.

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

The following are dormant subsidiaries.

Dormant subsidiaries	Incorporated	Immediate parent	% Holding
Oxford Catalysts UK Limited*	England and Wales	Velocys plc	100
Oxford Catalysts Trustees Limited*	England and Wales	Velocys plc	100
Velocys Project Solutions, LLC***	Delaware, USA	Velocys (USA Holdings) LLC	100
YellowRock GTL Services, LLC**	Delaware, USA	Velocys (USA Holdings) LLC	100
Ashtabula Energy, LLC***	Delaware, USA	Velocys Project Solutions, LLC	100
JAB Land-Ashtabula LLC**	Ohio, USA	Ashtabula Energy, LLC	100
Westlake GTL, LLC**	Delaware, USA	Velocys (USA Holdings) LLC	100
Taeda Holdings LLC**	Delaware, USA	Velocys (USA Holdings) LLC	100
Taeda (Natchez) Holdings LLC**	Delaware, USA	Taeda Holdings LLC	100
Bayou Fuels LLC**	Delaware, USA	Taeda (Natchez) Holdings LLC	100

Notes

* Located at Magdalen Centre, Robert Robinson Avenue, The Oxford Science Park, Oxford, OX4 4GA, UK.

** Located at 8520 Warner Road, Plain City, OH 43064, USA.

*** Located at 15721 Park Row Drive, Suite 150, Houston, TX 77084, USA.

Notes to the financial statements of Velocys plc continued

11. PROPERTY, PLANT AND EQUIPMENT

Please refer to note 17 of the consolidated financial statements for details of the property, plant and equipment accounting treatment.

2023	Furniture and Fixtures £'000	Total £'000
Cost		
At 1 January 2023	58	58
Additions	11	11
At 31 December 2023	69	69
Accumulated depreciation		
At 1 January 2023	39	39
Charge for the year	11	11
At 31 December 2023	50	50
Net book amount		
At 31 December 2023	19	19

2022	Furniture and Fixtures £'000	Total £'000
Cost		
At 1 January 2022	40	40
Additions	18	18
At 31 December 2022	58	58
Accumulated depreciation		
At 1 January 2022	33	33
Charge for the year	6	6
At 31 December 2022	39	39
Net book amount		
At 31 December 2022	19	19

Notes to the financial statements of Velocys plc continued

12. RIGHT-OF-USE ASSETS

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

2023	Buildings £'000	Total £'000
Cost		
At 1 January 2023	292	292
Additions	177	177
At 31 December 2023	469	469
Accumulated depreciation		
At 1 January 2023	184	184
Charge for the year	165	165
At 31 December 2023	349	349
Net book amount		
At 31 December 2023	120	120

2022	Buildings £'000	Total £'000
Cost		
At 1 January 2022	127	127
Additions	165	165
At 31 December 2022	292	292
Accumulated depreciation		
At 1 January 2022	42	42
Charge for the year	142	142
At 31 December 2022	184	184
Net book amount		
At 31 December 2022	108	108

Lease liabilities	2023 £'000	2022 £'000
Current	123	107
Total	123	107

The total cash outflow in respect of leasing activity was £168,000 (2022: £152,000).

Notes to the financial statements of Velocys plc continued

13. TRADE AND OTHER RECEIVABLES

	2023 £'000	2022 £'000
Prepaid costs	423	225
Other receivables	74	48
Amounts due from subsidiary undertakings	30,001	18,582
Total	30,498	18,855

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

A loss allowance of £36,000 was recognised in relation to the loans made to subsidiaries (2022: £2,327,000). At 31 December 2023 the total loss provision was £6,230,000 (2022: £6,194,000).

Critical accounting judgements and estimates

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

In accordance with IFRS9, the parent company determined that there had not been a significant increase in credit risk during the year and the loans were categorised as stage 1. A probability of default of 18.57% (2022: 38.62%) was applied, based on external market data for corporate bond default rates for CCC/C grade bonds. Further analysis was performed to determine a loss given default for each loan, taking into account the available liquid assets of the respective subsidiaries.

14. TRADE AND OTHER PAYABLES

	2023 £'000	2022 £'000
Trade payables	156	24
Accruals	3,137	1,030
Amounts due to subsidiary undertakings	2,771	–
Total	6,064	1,054

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 (2022: 60 days or less).

15. OTHER LIABILITIES

	2023 £'000	2022 £'000
Other liabilities	506	197
Total	506	197

Other liabilities comprise amounts owed by the parent company in respect of corporate insurance policies covered by a financing arrangement.

Notes to the financial statements of Velocys plc continued

16. FINANCIAL INSTRUMENTS

Financial assets

Velocys plc classifies, measures and accounts for its financial assets in the same way as the Company as a whole, see note 29 to the consolidated financial statements.

Financial risks

The risks that the parent company faces are intrinsically linked to those of the Company, see note 29 to the consolidated financial statements. No mitigation of this risk is taken at parent company level.

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

	2023 £'000	2022 £'000
Assets		
Cash and cash equivalents	478	9,333
Trade and other receivables excluding non-financial assets	497	273
Amounts due from subsidiary undertakings	30,001	18,582

	2023 £'000	2022 £'000
Liabilities		
Trade and other payables excluding non-financial liabilities	156	24
Amounts due to subsidiary undertakings	2,771	–
Lease liabilities	123	114
Accruals	3,060	971
Other liabilities	507	197

17. CALLED UP SHARE CAPITAL

Disclosures in respect of the share capital of Velocys plc are provided in note 30 to the consolidated financial statements.

Disclosures in respect of share options outstanding and share-based payments are provided in note 15 to the consolidated financial statements.

18. COMMITMENTS

The parent company has no capital commitments (2022: nil).

19. RELATED PARTIES

In the year ended 31 December 2023, Lansdowne Partners (UK) LLP, a substantial shareholder of the Company has subscribed for a total of 71,405,393 placing shares at the placing price of 2.5 pence per share. The directors, having consulted with the Company's nominated advisor, consider that the terms of the related party transaction were fair and reasonable. Certain directors of the Company, being Henrik Wareborn, Philip Sanderson, Philip Holland, Ann Markey and Thomas Quigley, all of which are deemed to be a related party pursuant to the AIM Rules, have subscribed for an aggregate of 2,400,000 placing shares at the placing price of 2.5 pence per share.

With the exception of transactions between the Company and its wholly owned subsidiaries, there were no material related party transactions in the year ended 31 December 2023.

20. POST FINANCIAL POSITION EVENTS

Disclosures in respect to post financial position events are provided in note 33 to the consolidated financial statements.