

Block Energy Plc

Annual Report and Financial Statements

Year Ended

31 December 2021



Block Energy Plc

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Strategic Report

Officers and Advisers

Directors

Paul Haywood	Chief Executive Officer
William McAvock	Chief Financial Officer
Philip Dimmock	Independent Non-Executive Chairman
Jeremy Asher	Independent Non-Executive Director (appointed 12 August 2021)
Kenneth Seymour	Independent Non-Executive Director (appointed 7 September 2021)
Christopher Brown	Independent Non-Executive Director (resigned 22 July 2021)
Charles Valceschini	Independent Non-Executive Director (resigned 3 December 2021)
David Sandroshvili	Independent Non-Executive Director (resigned 22 July 2021)

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Company Secretary and Registered Office

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Block Energy Plc is quoted on AIM (Symbol BLOE)

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Nominated Adviser Spark Advisory Partners Limited 5 St John's Lane London EC1M 4BH	Bank Barclays Bank Plc 1 Churchill Place Canary Wharf London E14 5HP
Auditor BDO LLP 55 Baker Street London W1U 7EU	Public Relations Celicourt Communications Limited Orion House 5 Upper St Martin's Lane London WC2H 9EA

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Highlights

- Successfully integrated the assets acquired from Schlumberger and defined an asset-wide field development and production enhancement plan.
- Commenced gas sales in February 2021, following completion of the Early Production Facility and associated gas gathering line.
- Delivered on multiple objectives set for 2021:
 - Fully integrated the substantial technical data base, following completion of the acquisition of SRCL,
 - Completed a risking and ranking process, focussed on short term drilling and production enhancement opportunities across the enlarged portfolio,
 - Defined a two-well drilling programme consisting of a new horizontal well, designed to appraise areas of low fracture density in the XIF license and a side track of an existing well, in the newly acquired XIB license, whilst simultaneously executing a workover programme structured to reverse the natural decline of our baseline production.
- Well JKT-01Z drilled and brought into production at 344 boepd, with rapid pay-back of drilling capex.
- Production enhancement programme, continues to deliver restoring and enhancing baseline production.
- Information gathered via the drilling of well WR-B01a and well JKT-01Z have directly supported the Project I development plan of 5 oil wells, due to commence in 2022.
- Asset wide study has defined two further projects:
 - Project II - the infill development of the Middle Eocene oil reservoir in the Patardzeuli oil field in Block XIB, and
 - Project III - the appraisal and development of the natural gas resources in the Lower Eocene throughout the XIF and XIB license areas.
- Over 399,000 operational man man-hours worked during the year, without any lost time incidents.
- Development of a three project strategy, tailored to provide additional short and medium term cashflows and unlock significant gas potential.

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Strategic Report

Strategy and Business Model

The Company's goal is to be the leading independent oil and gas company in Georgia. We plan to develop and exploit our portfolio of low cost, high impact development assets in a proven region of Georgia and scale up our current production and reserves via efficient work programmes led by a management team with deep experience of the Caucasus region and an operations team comprising local and international expertise.

During 2020, Block added two additional licences, Blocks IX and XI^B, to its portfolio in the heart of Georgia's oil and gas-bearing Kura Basin.

Block's work programme is designed to unlock West Rustavi's 0.9 MMbbls of gross 2P reserves of oil, 38 MMbbls of gross unrisked 2C contingent resources of oil and 608 BCF of gross unrisked 2C contingent resources of gas¹ and Block XI^B's 36 MMbbls of gross 2P reserves of oil, 160 BCF of gross 2P reserves of gas, and 333 BCF of gross unrisked 2C contingent resources of gas².

The programme's core elements are to exploit existing fields, converting resources to reserves and reserves to production. Blocks IX and XI^B are also thought to contain significant high impact exploration potential.

Despite the challenges of Covid-19, Block made good progress over the year ended 31 December 2021:

- Sold crude oil at higher oil prices as 2021 progressed. The average realised price for Q1 was \$52.18/bbl and for Q4 was \$72.74/bbl.
- Continued to build its management and technical teams in Georgia and London.
- Strengthened its board of directors with the appointment of two new independent non-executive directors in Q3 2021.
- Commenced gas sales in February 2021.

As well as holding associated gas reserves and resources in the Middle Eocene across Blocks XI^F (West Rustavi) and XI^B (Patardzeuli, Teleti, Krtsanisi and Samgori), the Group also holds large volumes of contingent natural gas resources in the deeper Lower Eocene and Cretaceous reservoirs and it is an intrinsic element of the Company's strategy to appraise and develop these reservoirs. It is anticipated that, if these contingent gas resources are proven and developed, the natural gas will be sold on a long-term basis, either to GOGC or directly to industrial purchasers, and prices will reflect those being paid by GOGC for gas imported from Azerbaijan, rather than the domestic spot price currently received by the Company for sales of associated gas.

The Company intends to increase the rate of development of its reserves and resources, through the number and frequency of wells we drill, as we reduce our drilling costs and increase our understanding of the subsurface. The finance required for development might be obtained by increasing equity and/or taking debt from the bond or other markets in addition to our own internal cash generation.

We continue to review opportunities to build the Company through development and acquisition, particularly within the immediate region.

The Company may also consider farm-out agreements with third parties as a means of funding future capital expenditure and expediting development.

¹ Source: CPR Gustavson Associates: 1 January 2018

² Source: CPR Bayphase Limited: 1 July 2015

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Chairman's Statement

Despite the challenges posed by the ongoing pandemic, we delivered on our key milestones during the year 2021, placing us in a good position to make solid progress this year and beyond.

Our main objectives for 2021 were:

- to build on our understanding of the subsurface, to support future drilling and production success; and
- to deliver a two-well drilling programme and a workover programme, to augment the existing production from existing wells.

The first objective was of strategic importance. By using attribute analysis of the 3D-seismic survey that we acquired on West Rustavi Block XI^F and the data acquired by a previous operator on Block XI^B, our geoscience team has made a significant improvement in understanding the nature of our complex Eocene oil and gas reservoirs.

This understanding has enabled us to make the investment case for Block Energy in 2022 by defining three appraisal and development projects:

- Project I, the development of the Middle Eocene oil reservoir in the West Rustavi/Krtsanisi field which straddles Blocks XI^F and XI^B;
- Project II, the infill development of the Middle Eocene oil reservoir in the Patardzeuli oil field in Block XI^B; and
- Project III, the appraisal and development of the natural gas resources throughout the Eocene in Blocks XI^F and XI^B.

Projects I and II will provide additional cash flow in the short to medium term from the sale of crude oil and natural gas while Project III promises to add significant value by better defining and ultimately monetising the extensive natural gas resources that lie under our portfolio of leases. This makes an attractive investment case, particularly at current oil prices, which should work well in Georgia, where the complexity of the subsurface geology is offset by the positive and supportive regulatory framework. The result, we believe, is an excellent balance of risk and reward.

We appreciate that the risk relating to individual development wells is significant when compared to many other regions of the world where reservoirs are simpler. We think the best way to look at Block Energy is to consider the totality of the opportunities in the planned portfolio of wells, rather than on a well-by-well basis. The nature of the geological risk means that some wells will always be more successful than others, but our operations team is driving costs down by a combination of careful planning, hard-nosed contracting and the introduction of innovative techniques. This will make payback on the successful wells rapid, particularly at the current oil price, as well as reducing the cost of any less successful wells. So, providing each portfolio of new wells is successful as a whole in adding to production, we, the shareholders, will see material returns on the investments made and our strategy going forward is to increase the number and frequency of wells that we drill.

We plan to commence Project I later this year which entails drilling five oil wells in the Krtsanisi anticline, newly recognised in the West Rustavi/Krtsanisi field.

The achievement of the second objective for 2021, reflected in the success of well JKT-01Z, in terms of cost, placement of the horizontal and production rate, and, ironically, the disappointing production rate from WR-B1 also was an important contributor to the first strategic objective.

None of this, of course, would be possible without the dedication and commitment shown by our team of 120 people in Georgia and six in London; a commitment that is reflected in their readiness to learn and adapt to deliver

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for us as the shareholders of our Company. I congratulate our people on quickly coming together after the acquisition of the Schlumberger subsidiary to form a unified and effective team. On behalf of the Board and shareholders, I take the opportunity to thank them for their dedication and the tremendous effort they make.

Despite the challenges of last year, your Company now has a stronger platform on which to realise its potential. On behalf of the Board, I would like to thank you all for your support. We look forward to engaging with you with further updates as the rest of the year unfolds.

Philip Dimmock
Non- Executive Chairman

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Chief Executive Officer's Statement

In 2021, we saw a material improvement in the global demand for oil and gas. This really took hold in the latter part of the year as the world emerged from Covid-19 and economies began to recover. The Company benefits from much improved oil pricing, which strengthens our business case and enhances the platform to deliver Projects.

Despite the challenging environment last year, the Board considered it vital to continue with prudent investments to progress the business. Now, a year later, we are seeing the benefits of those decisions, with the Company's revenue more than covering cash costs and enabling us to reinvest more revenue in future development.

Operations

Following the acquisition and integration of Blocks IX and XI^B, our Company embarked on two key initiatives during 2021, both aimed at maximising production from our enlarged portfolio. These initiatives included a two-well drilling programme to enhance production levels and a workover programme tailored to maximise production from our existing well stock.

These two initiatives came on the back of actions put in place in 2020 to monetise gas production, the success of which was realised in 2021, with gas sales commencing in February through the the Early Production Facility ("EPF") and associated gas gathering line installed in 2020. The Company's investment in these facilities paid further dividends in 2021 and 2022, with the immediate tie-in and monetising of oil and gas produced from the WR-B01a and JKT-01Z wells.

Two Well Programme

Planning for the first of the two wells commenced early in 2021, with the aim of drilling WR-B01 around mid-year.

The objective of well WR-B01, Georgia's first horizontal well, was to establish consistent production by targeting an area of the reservoir that was less prone to fractures. We learnt that the limited extent of the fracture networks adversely affected the overall well productivity.

The information received from drilling the WR-B01a well enabled the Company to calibrate its subsurface model, ahead of drilling the second well in the programme, JKT-01Z.

JKT-01Z was spudded in December 2021. The well was delivered early in 2022, significantly ahead of time and under budget.

The rapid tie-in and monetisation of production from well JKT-01Z was made possible by the recently installed infrastructure at an adjacent well, KRT-39, which has been in production for over 20 years. JKT-01Z produced at a rate of 344 boepd, validating the Company's improved understanding of the reservoir. It remains a solid contributor to the Company's overall production and cash flow profile, having already paid back the well-drilling capex in line with forecast, whilst directly informing the Project I development plan.

Workover and Other Programmes

Through 2021, the operations team continued to execute well maintenance and production enhancement intervention. This followed a well-by-well opportunity review that took place early in the year.

As part of that programme, well WR-38Z and WR-16aZ were both brought back into production in Q1, and both wells required further work during the year to support ongoing production. WR-16aZ produced intermittently during the first half and was supported by the installation of artificial lift in Q3. WR-38Z was on production more consistently, but experienced natural decline, which was more than offset by the production gains from installing the rod pump on WR-16aZ.

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Later in the year, we undertook a production enhancement programme, comprising technical well interventions, such as wellbore cleaning and replacing artificial lift components. This programme was focussed on supporting near-term production, whilst informing our technical evaluation of the mature development areas throughout Block XI^B, specifically the Patardzeuli field (which produced 100 MMbbls of oil). The team have since designed a staged infill development programme, which seeks to recover over 97 million barrels of remaining oil from undrained areas of this once-prolific field (Project II).

In a separate initiative, upgrading surface facilities at well KRT-39 in Block XI^B enabled the monetisation from January 2022 of the associated gas production from KRT-39 and JKT-01Z, boosting the Company's revenue whilst supporting strategic plans to advance the appraisal and development of the significant contingent gas resources across our portfolio (Project III).

Health & safety and ESG

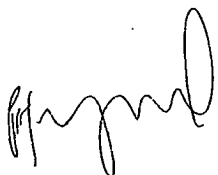
Over 399,000 operational man man-hours were worked by staff and contractors over during the year, without any lost time incidents. This is a significant achievement and reflects the Company's importance on health and safety. It also demonstrates the quality and diligence of the management team on-site and their ongoing dedication to working to the highest standards within the industry.

As part of the drive to improve the Company's ESG credentials, we were pleased to be accepted into the UN Global Compact Network ("UNGCN"). The UNGCN is a global platform promoting engagement on human rights, labour, environmental and anti-corruption standards.

Through its increased focus on gas, the transition fuel, over the course of 2021, Block also reduced its emissions on a sales-weighted basis. By selling associated gas produced, Block no longer has to flare it. Furthermore, by selling gas into the automobile fuel market, the Company reduces regional transport emissions by displacing higher carbon and more emissions-intensive alternative fuels.

Outlook

The Company is now benefitting from the various initiatives undertaken during 2021 to support production growth and a broader oil development and gas appraisal programme. The Company has built an excellent portfolio of assets and the exercise of strict capital discipline, combined with the benefits from higher oil and gas prices, places us in a great position to develop them further in the year ahead. Supported by our cash flow positive business and non-dilutive development financing options being explored, we plan to step up the rate of drilling in 2022 and 2023, to increase oil production and appraise the deeper gas play within our licences, which we believe contains substantial gas resources. The robust domestic and regional demand for gas, and the unrestricted direct access to European markets support the development of as much gas as possible.



Paul Haywood
Chief Executive Officer

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Chief Financial Officer's Statement

Balance sheet – acquisitions, capital expenditure, equity placing and asset growth

In November 2020, Block Energy Plc acquired 100% of the shares of Block Rustaveli Limited (formerly Schlumberger Rustaveli Company Limited), which holds the PSCs to Blocks IX and XI^B in Georgia, for \$6.8 million consideration, which comprised \$7.1 million in nil-cost options to acquire shares in Block Energy Plc less \$0.3 million cash from the seller to adjust the consideration for liabilities that were for the seller's account. The assets and liabilities acquired, which are detailed in note 12 to the consolidated financial statements include the following fair values: \$6.3 million of development and production assets, \$1.0 million of crude oil inventory, \$1.5 million of materials inventory, \$1.6 million of decommissioning liabilities and \$0.9 million of other liabilities.

The Group's net assets have decreased from \$29,694,000 as at 31 December 2020 to \$27,065,000 as at 31 December 2021. At the end of the year, the Group's cash balance was \$1,244,000 (2020: \$6,331,000).

Income statement

The Group's revenue increased to \$6,114,000 (2020: \$1,255,000) and other income included \$5,000 (2020: \$100,000) for sales of materials. The current year revenue from sales of crude oil of \$5,518,000 (2020: \$1,255,000) comprised the sale of 86,700 barrels (2020: 34,421 barrels) of oil, which equated to average revenue of \$63.65 (2020: \$36.45) per barrel.

During the year, the Group produced 108,000 barrels of crude oil (2020: 25,000 barrels), with the increase in production being due primarily to oil and gas produced from the wells in Block XI^B (acquired in late 2020) and from new wells/sidetracks. This gross production includes the state of Georgia's share of production.

In addition, the Group had over 20,000 barrels of crude oil inventory as at 31 December 2021 (31 December 2020: over 28,000 barrels). Following the year end, during the quarter ended 31 March 2022, the Group sold 24,413 barrels of crude oil inventory for net revenue of \$2.168 million, which equates to average revenue of \$88.80 per barrel (Q1 2021: sold 26,349 barrels for \$1.374 million or \$52.18 per barrel).

The Group commenced gas sales on 15 February 2021 and, during the period from 15 February 2021 to 31 December 2021, it sold 191.5 Mcf of gas for net revenue of \$596,000, which equates to an average gas price of \$3.11 per Mcf (2020: sold nil Mcf).

The loss for the year was \$4,783,000 as compared with a \$5,512,000 loss in the prior year. During the year, the Group had not yet achieved sufficient scale for the revenue to cover the Group's costs.

Future prospects

During Q1 2022, the Company produced 32.1 Mbbls of oil and 14.0 Mboe of gas, resulting in a combined total of 46.1 Mboe of oil and gas (Q1 2021: produced 29.8 Mbbls of oil and 14.6 Mboe of gas, resulting in a combined total of 44.4 Mboe of oil and gas). The average production rate for Q1 2022 was 512 boepd (Q1 2021: 493 boepd).

The Company has always been focused on controlling administration costs and continues to keep these to a minimum. We maintain a low-cost operation, and our Georgian portfolio offers a low-cost short-cycle production base.

Liquidity, counterparty risk and going concern

The Group monitors its cash position, cash forecasts and liquidity regularly and has a conservative approach to cash management, with surplus cash held on term deposits with major financial institutions.

The directors have prepared cash flow forecasts for a period of 18 months from the date of signing these financial statements. The Group's forecasts are reviewed regularly to assess whether any actions to curtail expenditure or cut costs are required. The Group is in the final stages of preparing to drill a horizontal sidetrack in the WR-B01 well followed by sidetracks of other wells. The forecasts assume the wells will produce oil and gas, which would be sold, and indicate the Group has sufficient funds to complete the drilling of the wells and to meet its liabilities as they fall due until December 2023. However, if any of the new wells do not produce commercial quantities of oil or gas, the Group would immediately revisit its plans to drill subsequent wells. The financial benefit of any

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additional capital projects would be assessed against capital requirements and balanced with ensuring that the Group and the Company can continue to meet their liabilities and commitments through to December 2023. The Company's forecasts are considered together with the Group's forecasts.

The Group's operations presently generate sufficient revenues to cover operating costs and capital expenditures, supporting the continued preparation of the Group's accounts on a going concern basis. The directors are nevertheless conscious that oil prices have risen rapidly during the past twelve months due in part to recent global political uncertainty, and could rise further but could also fall back in the year ahead, and that future production levels depend in part on the success of future drilling. As part of their going concern assessment, the directors have performed a reverse stress test on a low oil price scenario in which future drilling is inhibited or unsuccessful, and have concluded that it remains possible that future revenues in such a scenario might not cover all operating costs and planned capital expenditures, creating a material uncertainty that may cast doubt over the Group's ability to continue as a going concern. Whilst acknowledging this material uncertainty, the directors remain confident of making further cost savings and/or raising finance when required, and therefore the directors consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

Results and dividends

The results for the year and the financial position of the Group are shown in the following financial statements.

The Group has incurred a pre-tax loss of \$4,783,000 (2020: loss of \$5,512,000).

The Group has net assets of \$27,065,000 (2020: net assets of \$29,694,000).

The directors do not recommend the payment of a dividend (2020: \$nil).

William McAvock
Chief Financial Officer

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Principal Risks and Uncertainties

There are general risks associated with the oil and gas extraction industry. The Board regularly reviews the risks to which the Group is exposed and endeavours to mitigate these risks as far as it can. Given the current size and simplicity of the business, the Board considers that there is no immediate necessity to establish an independent internal audit function.

The following summary outlines the principal risks and uncertainties facing the Group at its present stage of development:

Description	Impact	Mitigation
<u>Strategic Risk</u>		
<ul style="list-style-type: none"> Regional tensions could have an adverse effect on the local economy and our business 	Georgia shares borders with Russia, Azerbaijan, Armenia and Turkey and could be adversely affected by political unrest within its borders and in surrounding countries. Georgia has had ongoing disputes with Russia over the breakaway regions of Abkhazia and the Tskhinvali Region/South Ossetia, since Georgian independence in 1991. These disputes have led to sporadic violence and breaches of peacekeeping operations. Escalation of these issues could impact the Group operationally, logistically and ultimately financially.	The Board monitors all political developments on an ongoing basis. This ensures swift reaction should it be required.
<ul style="list-style-type: none"> Risks associated with growth by acquisition (such as overpaying and conducting insufficient due diligence) and moving into new areas (such as geothermal) 	Any acquisition might negatively affect the Group's cash flows, operating results or financial condition to a material extent.	The Group has the skills and expertise to manage acquisitions (such as the acquisition of Schlumberger Rustaveli Company Limited during 2020 – see note 12). The Group intends to engage experienced industry partners and contracts for any geothermal evaluations.
<u>Financial Risks</u>		
<ul style="list-style-type: none"> Currency exchange rate fluctuations may negatively affect Block Energy 	The Group's consolidated financial statements are presented in United States dollars, and certain ongoing management costs will be denominated in British pounds sterling. The markets for the commodities produced are typically listed in US dollars and so Block Energy expects that most of its future revenues and operating expenses will be in US dollars, British pounds sterling and Georgian Lari. Consequently, Block Energy will be exposed to ongoing currency risk. In the event of an acquisition outside of Georgia, Block Energy may also have operating expenses denominated in another currency. Consequently, changes in the exchange rates of these currencies may negatively affect the Group's cash flows, operating results or financial condition to a material extent.	Block Energy does not intend to hedge its cash resources against risks associated with disadvantageous movements in currency exchange rates. Therefore, currency exchange rate fluctuations may negatively affect the Group. However, Block will endeavour to immediately convert funds raised in pounds sterling to US dollars as a natural currency hedge to fulfil operational work plans, and will continue to place foreign exchange orders in order to take advantage of favourable currency fluctuations.
<ul style="list-style-type: none"> The price of oil or gas may decrease significantly 	Continual decreases in the oil or gas price over a sustained period might negatively affect the Group's cash flows, operating results or financial condition to a material extent.	The Board has planned for sustained period of low oil or gas prices. The Board introduced measures in April

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		2020 (e.g. postponement of capital expenditure, cost reductions and cost deferrals) and would take similar measures as and when required.
<ul style="list-style-type: none"> Substantial capital requirements and access to funding might be limited 	<p>The Company's development strategy will require significant expenditure to fully exploit its potential. The Company will need to generate free cash flow from its operations and raise debt or equity funding to be able to finance these costs. If the Company's revenues do not recover or its reserves decline, it may have limited ability to expend the capital necessary to undertake or complete future drilling programmes and may require additional financing to do so. If Block Energy is unable to raise funding to support ongoing operations and to fund capital expenditure, it may limit the Company's growth or may have a material adverse effect upon the Company's financial condition, results of operations or prospects. The ability of Block Energy to arrange financing in the future will depend in part upon the prevailing capital market conditions, the perceived risk associated with Georgia, and business performance of the Company. Fluctuations in oil and gas prices may affect lending policies for potential future lenders. This in turn could limit growth prospects in the short-term or may even require Block Energy to divert existing cash balances or cash flows from other intended purposes (e.g. capital expenditure), dispose of assets or raise new equity to continue operations under circumstances of declining energy prices, disappointing drilling results, or economic or political dislocation in Georgia. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. This may be further complicated by the limited market liquidity for shares of smaller companies, restricting access to some institutional investors. If additional financing is raised by the issuance of shares from treasury of Block Energy, control of the Company may change and shareholders may suffer additional dilution. The Company cannot predict the size of future issuances of equity or the issuance of debt or the effect, if any, that future issuances and sales of the Company's securities will have on the market price of the Company's shares.</p>	<p>The Board will remain proactive in identifying possible business risks and funding shortfalls. A fund warning structure is in place, which is activated when funding levels reach certain low cash resource parameters. This will ensure the Board can act swiftly as required to mitigate these risks.</p> <p>The Company maintains regular reporting structures, so that all issues are quickly identified by the Board, be it operational or financial in nature.</p>
<ul style="list-style-type: none"> Project Capital Cost Performance 	<p>Higher costs might negatively affect the Group's cash flows, operating results or financial condition to a material extent.</p>	<p>To gain the most competitive pricing, control costs and limit overruns, the Group will apply fit-for-purpose contracting strategies (e.g. lump-sum pricing, when appropriate) and incorporate robust tendering procedures in the procurement of materials and services.</p>

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<ul style="list-style-type: none"> Over-reliance on one gas purchaser and few oil purchasers 	<p>An inability to sell oil or gas might negatively affect the Group's cash flows, operating results or financial condition to a material extent.</p>	<p>For oil sales, the Group holds regular discussions with the few purchasers and sells the oil under the best terms.</p>
<ul style="list-style-type: none"> Counterparty risk, such as an oil or gas purchaser not paying 	<p>Not receiving cash for oil or gas sold might negatively affect the Group's cash flows, operating results or financial condition to a material extent.</p>	<p>For gas sales, the Group receives payment on a monthly basis on the 27th day following the month of supply, so the impact is limited. For oil sales, the Group receives between 50% and 100% prepayment.</p>
Operational Risks:		
<ul style="list-style-type: none"> Poor production performance 	<p>Less cash flow than forecast from operations might negatively affect the Group's cash flows, operating results or financial condition to a material extent.</p>	<p>The Group has a portfolio of projects with varying risk, capital and production profiles, which enables it to spread the risk across its various licences.</p>
<ul style="list-style-type: none"> Permits, licences and leases 	<p>The Company's operations require permits, licences and leases from various governmental authorities in Georgia. The Company may not be able to obtain all necessary permits, licences and leases that are required to carry out future exploration and development projects. If the present permits, licences and leases are terminated or withdrawn, such event could have an adverse effect of the Company's operations.</p>	<p>The directors believe that the Group is complying in all material respects with the terms of the licences and permits granted to it in order to undertake its activities in Georgia. Furthermore, the PSCs contain provisions obliging the government of Georgia to co-operate fully with the Group in obtaining all necessary consents and permits. Nevertheless, the Group's ability to obtain, sustain or renew such licences and permits on acceptable terms are subject to change in regulations and policies and to the discretion of the applicable regulatory authorities and governments.</p>
<ul style="list-style-type: none"> The Company's proposed development plans are subject to several operational risks 	<p>Drilling and workover programmes carried out by the Group involve potentially complicated and difficult technical operations with which there are inherent risks. These include human error by the drilling operator, equipment failure, mistakes in the planning of the operations and the encountering of unforeseen difficulties within field operations.</p>	<p>While these risks cannot be eliminated, they are to an extent mitigated because the geology and geophysics of Block Energy's assets are becoming better understood, in particular because of the number of wells previously drilled in each of the licences. Block Energy has an experienced technical team who have worked in Georgia for many years. In addition, the Group has overseen the drilling of a number of wells in Georgia.</p>
<ul style="list-style-type: none"> Global pandemic negatively impacts operations 	<p>If the global pandemic results in a lockdown or state of emergency being declared, it could result in the Group having to cease its operations, which might negatively affect the Group's cash flows, operating results or financial condition to a material extent.</p>	<p>The Board has planned for such a period of cessation of operations. The Board introduced measures in April 2020 (e.g. postponement of</p>

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		capital expenditure, cost reductions and cost deferrals) and would take similar measures as and when required.
HSE Risks:		
<ul style="list-style-type: none"> Accident and Incidents associated with operations (e.g. blowout) 	Serious accidents can result in shut down of operational sites and loss of credible operator reputation/licence.	The Group continues to develop its HSE Management Policies. It has an emergency response plan and carries out frequent inspections of operations by HSE staff, personnel safety training, daily worksite safety meetings, improvements to operating equipment, and provides personal protective equipment to all field worksite personnel. In response to the last time incident in 2019 and to prevent the future occurrence of a similar incident, the Company upgraded well-site equipment and invested in additional training of personnel.
<ul style="list-style-type: none"> Environmental contamination caused by oil and water spills 	Increased operating expenditures due to clean-up costs and loss of production revenue due to intermittent shut-downs and less oil to sell if it's being lost. Also, frequent spills could lead to fines being levied by the state.	The Group will continue to repair and upgrade its production facilities to reduce the risk of spills due to equipment failure. Improved operating procedures through training of operations personnel to avoid the spill situations.
<ul style="list-style-type: none"> Local community protests prevent the Group from operating 	If the Group is unable to operate its wells or drill new wells, this could have an adverse effect of the Company's operations.	The Group has a community engagement strategy, hires local community labour, and funds several community projects near its operations.
Legal and Compliance Risks:		
<ul style="list-style-type: none"> Non-compliance with laws or regulations 	The Group might incur penalties and loss of good reputation.	The Group has a strong compliance framework, with experienced advisers, policies and procedures, and compliance training.
Organisational Risks:		
<ul style="list-style-type: none"> Dependence on key relationships including, inter alia, the State and Georgian Oil and Gas Corporation ("GOGC") 	The success of the business of the Group and the effective operation of the Group's interests in Georgia is dependent in part on good relationships and co-operation with these parties. The State is a counterparty to the Group's PSCs. Accordingly, if the State, its Agency and/or the national oil company, GOGC, can not cooperate with each other or the Group, it could harm the business, operations, and prospects of the Group.	Management maintains regular communication with the State, its Agency and GOGC.

Block Energy Plc

Strategic Report

<ul style="list-style-type: none">Dependence on key executives and personnel, employee retention and recruitment	<p>Block Energy has a comparatively small number of current and proposed employees. The future success of the Group depends partially on the expertise of the directors. The loss of key personnel and the inability to recruit additional key personnel could have a material adverse effect on the Group's future by impairing the day to day running of the Group and its ability to exploit the opportunities open to it. An inability to attract or retain additional key personnel could have a material adverse effect on the Group's business and trading results. In addition, the loss of the services of the executive directors or other key employees could damage the Group's business.</p>	<p>Executive directors have notice periods of no less than three months to ensure sufficient time to hand over responsibilities in the event of a departure.</p> <p>The Remuneration Committee regularly evaluates compensation and incentivisation schemes to ensure they remain competitive.</p>
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Block Energy Plc

Strategic Report

Statement of Corporate Responsibility

Block Energy Plc has a practical and open approach to its Corporate Responsibility ("CR"). Our CR programme is focused on doing the right thing, managing risk, and investing sustainably in the community in which we operate.

Impact of culture on decision-making

Our investment decisions carefully consider environmental and social impacts and how such impacts are best managed for all stakeholders. Our operations should not compromise the well-being of current or future generations. This responsible behaviour is a crucial element for our long-term business success.

For Block Energy this means:

- Acting with respect for people, communities and the environment
- Acting honestly and openly with all stakeholders, fully respecting the rule of law and human rights
- Contributing to the development goals of Georgia
- Integrating sustainability and CR into our strategy, planning, implementation and management systems
- Providing clear public reporting on our management systems and performance.

In Georgia, the Group has prepared several detailed Environmental Impact Statements ("EIS").

Health, safety, environmental and social performance

The Company strives for continuous improvement, and Block Energy is committed to maintaining high standards of health, safety, environmental and social performance ("HSES") across all its oil and gas exploration and development operations. To achieve this, we will:

- As an integral part of our business, identify, assess and manage the HSES risks to people, the environment and assets in order to avoid adverse direct or indirect effects from our operations.
- Ensure that our operations comply, as a minimum, with applicable health, safety, environmental and social laws and regulations, as well as best practicable industry standards.
- Maintain high ethical standards in carrying out business activities.
- Provide necessary leadership and resources to enable effective HSES management throughout our organisation.
- Prevent and minimise the impact of our operations on the environment.
- Ensure continuous improvement of HSES performance by setting objectives and targets and focused auditing, reviews and external benchmarking.
- Select competent staff, contractors and suppliers to manage and support the business.
- Ensure that a high priority is placed on emergency preparedness and contingency planning, and that any plans are tested regularly to ensure that any incidents are responded to in a timely and effective manner.
- Foster a culture where accidents, incidents and near misses are reported and investigated, and the lessons learned are shared.
- Consult with and respond to the concerns of our stakeholders on our health, safety, environmental and social performance.
- Ensure that this policy is clearly displayed in all Block Energy premises and operational sites, provided to all contractors, and made publicly available.
- The Company's directors, employees and contractors have a responsibility for maintaining high HSES standards and this Policy will be used to guide their activities.

Block Energy Plc

Strategic Report

Stakeholder engagement

We understand that our long-term success depends on our relationships with our stakeholders. We strive to provide our stakeholders with timely and effective information, responses and support. The following table summarises how we identify and seek to meet their needs, interests and expectations.

Stakeholder	Reason for engagement	How we engage
Employees: Our capacity to design and execute our strategy depends on the health, development and retention of our dedicated and skilled staff.	Transparent and regular communications with staff is essential for ensuring understanding of commitment to the Company's objectives. As an oil and gas production company we have particular health, safety and environmental obligations (see 'Communities and environment' below).	Management in London and Georgia have daily team meetings. A wider international team has a weekly video meeting. The executive directors make regular trips to Georgia to work with our operations staff onsite. The management team has regular one-on-one meetings with every staff member. Other elements are: Training and development sessions (on HSE, compliance, event prevention); and corporate benefits. We publish announcements on the London Stock Exchange's website and our website and across our online channels. Interviews with our directors are published as videos and podcasts. We operate an investor mailing list subscription service. We issue regular updates to our corporate presentation. We attend investor relations events and communicate via the annual report and AGM. We hold 1-2-1 sessions with the largest shareholders.
Shareholders. We provide transparent, accessible and balanced information to investors to ensure support and confidence.	Understanding shareholder sentiments regarding the business, its prospects and the performance of management and meeting regulatory requirements.	
Industry bodies, local and national governments. Our services must meet certain legal and regulatory requirements.	We work hard to meet our regulatory obligations to retain our good standing with regulators, the Georgian government, and the wider oil and gas sector. Our relationship with the local and national government is a key to our success and has taken a long time to develop.	We adhere to Georgian state regulations. We commit to fulfilling our AIM obligations. We engage an annual audit of Company processes and financial risks. We have developed comprehensive Market Abuse Regulations (MAR) and anti-bribery policies.
Communities and environment. Our operations are embedded within a complex local economic and ecosystem.	We ensure that all our staff, particularly those involved in operations, work in safe conditions and that they protect the safety of others. We also ensure that our exploration and production activities are conducted with due care for the environment and neighbouring communities. We work with state and local government to support the communities in the areas where we operate and support community programmes.	We have appointed an experienced professional to develop, enforce and oversee our HSE policy. HSE is the first item discussed during the operations section of our monthly board meeting. Our Technical Director also provides an HSE update during our weekly team meeting. Our London office operates a recycling policy for paper and packaging. We intend to extend this policy to our Georgian offices.
Suppliers. We engage contractors and purchase from a wide range of suppliers.	We must honour our obligations to the staff of the companies that we contract, and ensure they are aware of the HSE and regulatory framework within which we operate.	We integrate our MAR and HSE policies into all agreements entered into by our contractors. We have a robust financial process for settling our invoices for contractors and all other service providers. We take care to ensure we source products and services from ethical suppliers.

The Board is responsible for putting in place and communicating a sound system to manage risk and implement internal control. We recognise that risk management is an essential business practice: we work to balance risk and return, threat and opportunity.

Block Energy Plc

Strategic Report

Health, safety and environment

Our operations are conducted within a robust Health, Safety and Environment ("HSE") framework. We employed a full-time HSE adviser to work onsite in Georgia with our Georgian HSE manager to design and enforce our policy. The Board has taken on the responsibility of formulating the HSE Policy and establishing an HSE Management Plan for the remainder of 2022. It monitors performance against the Plan every month, assisted by regular reports from the HSE manager. Any serious incident or high potential near miss will immediately be brought to the attention of the Board, which will then oversee the appropriate remedial action.

Climate change

For our sector, there is a keen interest from several stakeholders and investors on the theme of climate change and we can assure them that Block is wholly committed to good environmental stewardship. We have a robust approach to corporate responsibility and sustainability issues, underpinned by our commitment to high standards of health and safety and environmental stewardship. Consistent with our strategy, one of our environmental achievements in 2021 was the installation of a separator and a 4.2 km gas pipeline from well KRT-39 to the early processing facility in West Rustavi that enables the sale of the associated gas produced from well KRT-39 and thereby reduce the emissions from the flaring of natural gas associated with the oil production. This will have a positive impact on the carbon footprint of the output and help reduce carbon dioxide emissions.

Block Energy Plc

Strategic Report

Board of Directors

The current Board consists of five directors: three independent non-executive directors, one with the role of Chairman, and two executive directors.

Paul Haywood | Chief Executive Officer

Committee memberships: Nominations Committee; ESG Committee; HSE Committee

Paul has a wealth of experience and success in delivering value for his investment network through a blended skill set of corporate banking and operational experience, building early stage and growth projects throughout the UK, Europe, Africa and Middle East. Paul is a founder of Block Energy and has spent more than 15 years in the natural resources sector, with over ten years in the Georgian oil and gas sector, leading the acquisition, development and sale of many assets. Additionally, Paul has held senior management roles with UK and Australian public companies in the natural resources sector.

Key skills and competencies: corporate and operational oil experience, Georgia knowledge and contacts, and strong record of delivering projects.

William McAvock | Chief Financial Officer

Committee memberships: Disclosure Committee, ESG Committee (until 8 December 2021)

William has more than 15 years' experience in strategic and operational finance roles within several listed natural resources groups, including Gulf Keystone Petroleum Ltd, International Petroleum Ltd, African Minerals Ltd and Adastra Minerals Inc, where he took leading roles in establishing and managing financial systems in Iraq, Russia, Kazakhstan, Niger, Sierra Leone and the Democratic Republic of Congo. William is a qualified Chartered Certified Accountant and holds a BA (Hons) in Accounting from London Guildhall University.

Key skills and competencies: finance and accounting, operational oil experience.

Philip Dimmock | Non-Executive Chairman

Committee memberships: Audit and Risk Committee (until 8 December 2021); Disclosure Committee; Nominations Committee (Chair); Technical Committee; HSE Committee (Chair)

Philip spent a significant part of his career at BP in a wide variety of senior positions, including manager of the Forties oil field. Subsequently, his executive roles included Vice President International/Managing Director UK at Ranger Oil Ltd/Canadian Natural Resources and Vice President Operations at Vanco Energy. In non-executive board positions, Philip was a director of Nautical Petroleum Plc and the Senior Independent Director of Gulf Keystone Petroleum Ltd. He currently serves as Adviser to Oando Energy Resources Inc. Philip has an MA in Physics from the University of Oxford.

Key skills and competencies: extensive oil and gas sector experience and knowledge, career board member

Jeremy Asher | Non-Executive Director

Committee memberships: Audit and Risk Committee (Chair); Nominations Committee; Remuneration Committee; Disclosure Committee

Jeremy is Chairman & CEO of Tower Resources plc. In recent years he served as a director of NYSE-listed Pacific Drilling SA, Deputy Chairman of London-listed Gulf Keystone Petroleum Ltd, and as a director of TASE-listed Oil Refineries Ltd. Previously he co-headed the global oil products business at Marc Rich & Co (now Glencore AG) and then acquired and developed a 275,000 b/d oil refinery in Germany, before serving as CEO of PA Consulting Group and advising and investing in numerous companies in the energy sector. He holds a BSc (Econ) from the London School of Economics and an MBA from the Harvard Business School.

Key skills and competencies: extensive oil and gas sector experience, professional consultant and manager

Block Energy Plc

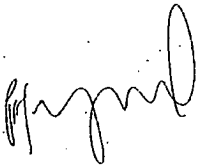
Strategic Report

Kenneth Seymour | Non-Executive Director

Committee memberships: Audit and Risk Committee; Technical Committee (Chair); Remuneration Committee (Chair); ESG Committee (Chair); HSE Committee

Kenneth graduated from Leeds University, UK with a first class BSc honours degree in Mining Engineering & a PhD in Rock Mechanics. He has worked with IOCs and independent E&P companies for over 40 years as Drilling Engineer, Drilling Superintendent, Drilling Manager, General Manager, Director and Adviser in the North Sea, China, Pakistan, Angola, Nigeria and Indonesia. He obtained an MBA in 1994 from the Aberdeen Universities and has authored over thirty presentations on well engineering and upstream management.

The strategic report was approved by the directors and signed on behalf of the Board on 30 June 2022.



Paul Haywood

Chief Executive Officer

30 June 2022

Block Energy Plc

Report of the Directors

The directors present their report and the audited financial statements of Block Energy Plc ("the Group") for the year ended 31 December 2021.

Principal activity

The principal activity of the Group is oil and gas extraction and development.

Incorporation and admission to trading on AIM

The Company was incorporated on 8 February 2005 and was admitted to trading on AIM on 11 June 2018.

Results and dividends

The results for the year are set out on page 47.

This report covers the year ended 31 December 2021.

The directors do not recommend payment of a dividend (2020: \$nil).

Review of business and future developments

A review of the business and likely future developments of the Company are contained in the CEO's Statement on page 8.

Going concern

The Group's operations presently generate sufficient revenues to cover operating costs and capital expenditures, supporting the continued preparation of the Group's accounts on a going concern basis. The directors are nevertheless conscious that oil prices have risen rapidly during the past twelve months due in part to recent global political uncertainty, and could rise further but could also fall back in the year ahead, and that future production levels depend in part on the success of future drilling. As part of their going concern assessment, the directors have performed a reverse stress test on a low oil price scenario in which future drilling is inhibited or unsuccessful, and have concluded that it remains possible that future revenues in such a scenario might not cover all operating costs and planned capital expenditures, creating a material uncertainty that may cast doubt over the Group's ability to continue as a going concern. Whilst acknowledging this material uncertainty, the directors remain confident of making further cost savings and/or raising finance when required and therefore the directors consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

Risk management

Risk management is integral to the business with management continuously monitoring and managing risk within the relevant business areas. Every material decision is preceded by an evaluation of applicable business risks. Regular reviews of risks and management of these are undertaken and presented to the Board.

Principal risks and uncertainties

The principal risks the Board have reviewed are disclosed on pages 12 to 16 of the Strategic Report.

Share capital

Details of shares issued by the Company during the year are set out in Note 18 to the financial statements.

Block Energy Plc

Report of the Directors

Directors and directors' interests

The directors of the Company who served during the year ended 31 December 2021 are listed below, and the current Board members' biographies are on pages 20 and 21.

Paul Haywood	Chief Executive Officer
William McAvock	Chief Financial Officer
Philip Dimmock	Independent Non-Executive Chairman
Jeremy Asher	Independent Non-Executive Director (appointed 12 August 2021)
Kenneth Seymour	Independent Non-Executive Director (appointed 7 September 2021)
Christopher Brown	Independent Non-Executive Director (resigned 22 July 2021)
Charles Valceschini	Independent Non-Executive Director (resigned 3 December 2021)
David Sandroshvili	Independent Non-Executive Director (resigned 22 July 2021)

Details of directors' interests in shares are disclosed on page 37.

Directors' and officers' liability insurance

The Group provided directors' and officers' liability insurance at a cost of \$28,000 (2020: \$10,000).

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and company financial statements in accordance with UK adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and company and of the profit or loss of the Group and company for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as applied in accordance with the provisions of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Block Energy Plc

Report of the Directors

Governance statement

We have chosen to adhere to the Quoted Company Alliance's Corporate Governance Code for Small and Mid-Size Quoted Companies 2018 version. Our full statement of compliance with the QCA Code is provided in the Governance Report from pages 25 to 33.

Engagement with employees in the UK

We have few UK staff and our London based staff have daily team meetings, and the executive team has regular one-on-one meetings with every staff member.

Engagement with stakeholders

This is discussed in the Statement of Corporate Responsibility on pages 17 to 19. Furthermore, the Board has appointed Kenneth Seymour to serve as its Employee Representative.

Engagement with shareholders

The directors attach great importance to maintaining good relationships with shareholders and the Company is active in communicating with both its institutional and private shareholders. The Company also issues regular updates to shareholders. Market sensitive information is notified in accordance with the AIM Rules and the Market Abuse Regulation.

Political contributions

During the year ended 31 December 2021, political donations totalled \$nil (2020: \$nil).

Financial instruments

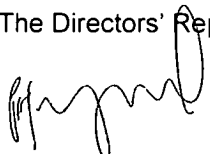
The main financial risks arising from the Group's activities are liquidity risk, commodity price risk, increased costs and currency risk. These are monitored by the Board and were not considered to be significant at the reporting date.

Budgets are regularly prepared and fund-raising initiatives undertaken as and when required. Risk is inherent in the nature of the business and is managed to the best of the Board's ability. Further detail on financial instruments is shown in note 23.

Auditors and disclosure of information to auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the relevant Auditors for the purposes of their audit and to establish that the Auditors are aware of that information. The directors are not aware of any relevant audit information of which the Auditors are unaware.

The Directors' Report was approved and authorised for issue on 30 June 2022.



Paul Haywood
Director

Date: 30 June 2022

Block Energy Plc

Governance Report

Corporate Governance Statement

Introduction

We believe in the value and importance of good corporate governance and in our accountability to our stakeholders, including shareholders, staff, contractors, clients, suppliers, and the communities within which we operate.

Corporate governance was improved in January 2021 by establishing a new ESG Committee and in 2019 by establishing a Technical Committee of the board. More frequent meetings of the board and its committees continued during 2020. The Company's succession plans include greater diversity.

QCA Corporate Governance Code (2018)

From 28 September 2018, AIM rules require AIM listed companies to apply a recognised Corporate Governance Code. We have chosen to adhere to the Quoted Company Alliance's Corporate Governance Code for Small and Mid-Size Quoted Companies to meet the new requirements of AIM Rule 26.

The QCA Code is constructed around 10 broad principles and a set of disclosures. The QCA has stated what it considers to be appropriate arrangements for growing companies and asks companies to explain how they are meeting the principles through the prescribed disclosures. This statement explains how Block will follow the 10 principles of the QCA Code, quoted in the headings below, as specified in the AIM Rules for Companies published by the London Stock Exchange.

Principle One: 'Establish a strategy and business model which promote long-term value for shareholders'

Block's aim is to become the leading independent oil and gas producer in Georgia by realising the potential of previously discovered fields suited for the deployment of selected Western well technology and completion techniques. Georgia is a stable, business friendly nation with proven but underdeveloped reserves, and is of increasing interest to major producers.

Block has working interests in five licences: Block IX (100%), Block XI^B (100%), West Rustavi (100%), Norio (100%) and Satskhenisi (90%). All are within the region's prolific Kura basin, which at its peak produced approximately 67,000 bopd and in the course of its history has produced over 180 MMbbl.

We have designed a robust business model to implement our strategy:

- The Company has raised a total of £22 million (\$29 million) between June 2018 and December 2020 to fund a multi-well drilling programme to accelerate exploration and production at West Rustavi and Block XI^B. A 3D seismic survey of the field has been acquired to identify optimal drilling locations. Storage facilities have been upgraded, and a gas offtake agreement secured.
- Successful execution of Block's plan requires a management and technical team with extensive knowledge of Georgia's oil and gas sector and its legal and regulatory environment. Block is led by a management team with deep and broad experience, with networks both in Georgia and across the international oil and gas industry. One of our shareholders, Georgia Oil & Gas Limited, is a well-established operator and asset owner within the region. The Company has also assembled a team of geologists and geophysicists with first-hand experience of working on major Georgian oil fields.
- Block's principal technical challenges are to identify technologies suitable for the near-wellbore damage believed to exist in the wells drilled earlier within our licences, and to successfully deploy sidetracking and suitable completion techniques to optimise production from the fractured and compartmentalised reservoirs present. In meeting these challenges, Block is bringing proven, cost-efficient technology to Georgia. A state-of-the-art 3D seismic survey of West Rustavi has been completed, the results of which are being analysed by an experienced technical team. We have recruited a highly skilled and experienced technical team, drawing on specialist consultants as required, to design and implement horizontal sidetracking operations at West Rustavi and Block XI^B. And we have selected an enhanced perforation technology that our research indicates will be ideal for overcoming legacy wellbore damage, able to bore multiple small holes from the wellbores and circumvent historic issues.

Block Energy Plc

Governance Report

- All our operations are conducted within a developing robust HSE framework. The Board has set a number of short-term objectives to bring the legacy facilities up to industry standards and has recruited an industry professional with decades of experience overseeing HSE in Georgia for multinational oil and gas companies as a full time HSE adviser. He is working onsite to further develop and enforce our policies.
- The Board recognises the critical importance of developing effective communications channels with current and prospective investors. We regularly update the market as appropriate with announcements, which are posted automatically to our website as soon as they appear on the London Stock Exchange's Regulatory News Service ("RNS"). Our directors are frequently interviewed on investor news channels. We also distribute our RNS announcements and other Block news through social media and a mailing list subscription service and continue to make the Company's business case at investor meetups and other events around the UK. All of our communications are available on our website and social media channels. We intend to meet our major institutional investors on a regular basis and, beyond the Annual General Meeting of shareholders, to hold investor days periodically.
- The Company contracts an experienced financial communications company to assist with preparing our RNS announcements, presentations and the management of our social media channels.
- Our directors continually investigate and evaluate new exploration and production opportunities in Georgia and beyond. In 2019, we identified two additional Georgian licences operated by Schlumberger and acquired them during 2020. We are an ambitious, flexible and open-minded operator, alert to fresh opportunities for applying the latest production and exploration technologies and processes to take advantage of discoveries.

Principle Two: 'Seek to understand and meet shareholder needs and expectations'

The Board strives to keep shareholders informed with clear and transparent information on the Company's operations, strategy and financial position. Details of all shareholder communications are provided on the Company website, in accordance with the AIM Rules for Companies. RNS updates are published to the 'Announcements' section; reports and circulars to the 'Investors' section; and videos, podcasts, presentations and images from our field operations to Block's social media - Twitter and LinkedIn - and the website's 'Media' section.

Primary responsibility for investor relations rests with the Chief Executive Officer, supported by the other directors. Since Block began trading on AIM on 11 June 2018, the Company has used multiple channels to understand the needs and expectations of its shareholder base.

The AGM is our principal forum for dialogue with private shareholders, and usually we encourage all shareholders to attend and participate, but attendance at the next AGM is likely to be restricted by Covid-19 measures. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The chairs of the Board and all committees, together with all other directors whenever possible, attend the AGM and are available to answer questions raised by shareholders. Shareholders vote on each resolution by way of a poll. We intend to announce the number of votes withheld, received for and against each resolution and publish them on our website.

In addition to maintaining the digital communications channels discussed under Principle One above, the Company maintains a dedicated email address (info@blockenergy.co.uk) which investors can use to contact the Company. This is displayed prominently on our website, together with an online enquiries form and our address and phone number. All enquiries are reviewed and distributed to our directors as appropriate. We also contract a financial communications agency to assist with the preparation and maintenance of our investor announcements, presentations and social media channels.

The directors continually review our channels with private shareholders. As discussed under Principle One above, we intend to hold investor days which shareholders will be encouraged to attend either in person or by teleconference, in addition to our AGM.

The directors also take every opportunity to communicate our objectives to institutional shareholders. They make presentations to institutional shareholders and analysts immediately following the release of the Company's full-year results. We keep in touch with institutional investors through a combination of formal meetings, participation at investor conferences, roadshows and informal briefings with management. The majority of meetings with shareholders and potential investors are arranged by the Company's brokers or direct with the Company. After meetings, the broker provides anonymised feedback to the Board from all of the fund managers we meet with to

Block Energy Plc

Governance Report

gather and monitor sentiments, expectations and intentions. In addition, we review analyst notes to achieve a wide understanding of investor views and develop our investor relations strategy.

Principle Three: 'Take into account wider stakeholder and social responsibilities and their implications for long-term success'

We understand that our long-term success depends on our relationships with our stakeholders. Please see our Statement of Corporate Responsibility in the Strategic Report element of this Annual Report as presented on pages 17 to 19.

Principle Four: 'Embed effective risk management, considering both opportunities and threats, throughout the organisation'

The Board is responsible for putting in place and communicating robust systems to manage risk and implement internal control. We recognise that risk management is an essential business practice: we work to balance risk and return, threat and opportunity.

Audit and Risk Committee

The Board has established an Audit and Risk Committee to meet as necessary to consider the scope of the annual audit and the interim financial statements and to assess the effectiveness of the Company's system of internal controls. It reviews the results of the external audit, its cost effectiveness and the objectives of the auditor. Given the present size of the Company the Audit and Risk Committee considers an internal audit function is not currently justified. The Audit and Risk Committee currently comprises Jeremy Asher (Chair), and Kenneth Seymour. During 2021, it comprised David Sandroshvili (until 22 July 2021), Philip Dimmock (until 8 December 2021), Charles Valceschini (until 3 December 2021), Jeremy Asher (from 13 August 2021) and Kenneth Seymour (from 8 December 2021).

Remuneration Committee

The Remuneration Committee reviews the performance of the executive directors and makes recommendations to the Board on matters relating to their remuneration and terms of employment. The Remuneration Committee also makes recommendations to the Board on proposals for granting share options and other equity incentives pursuant to any share option scheme or equity incentive scheme in operation. The Board sets the remuneration and terms and conditions of appointment of the non-executive directors of the Group. The executive directors are invited to attend for agenda items that require their contributions although they do not take part in any discussion on their own benefits and remuneration. The Remuneration Committee currently comprises Kenneth Seymour (Chair) and Jeremy Asher. During 2021, it comprised Chris Brown and David Sandroshvili.

Nominations Committee

The Nominations Committee meets as and when necessary to consider appointments to the Board, senior management positions and succession planning. The Nominations Committee currently comprises Philip Dimmock (Chair), Jeremy Asher and Paul Haywood. During 2021, it comprised Philip Dimmock, David Sandroshvili and Paul Haywood.

Disclosure Committee

The Disclosure Committee has the primary responsibility and authority to make decisions on disclosure delay for the purposes of Market Abuse Regulations ("MAR"). The Disclosure Committee currently comprises Jeremy Asher (Chair), Philip Dimmock and William McAvock. During 2021, it comprised Philip Dimmock and William McAvock.

Technical Committee

The Technical Committee meets every month and sometimes more frequently on an informal basis to consider surface and sub-surface technical and operational matters. The Technical Committee currently comprises Kenneth Seymour (Chair) and Philip Dimmock. During 2021, it comprised Chris Brown and Charles Valceschini.

Block Energy Plc

Governance Report

HSE Committee

Our operations are conducted within a robust Health, Safety and Environment ("HSE") framework. We have employed a full time HSE manager to work onsite in Georgia to design and enforce our policy: a professional petroleum engineer with decades of experience overseeing HSE in Georgia for multinational oil and gas companies.

The Board has established a HSE Committee. It has taken on the responsibility of formulating the HSE policy and establishing an HSE management plan for the remainder of 2021. It monitors performance against the plan every month, assisted by regular reports from the HSE Manager. Any serious incident or high potential near miss will immediately be brought to the attention of the Board which will then oversee the appropriate remedial action. The HSE Committee currently comprises Philip Dimmock (Chair), Kenneth Seymour and Paul Haywood. During 2021, it comprised Philip Dimmock (Chair), Charles Valceschini and Paul Haywood.

ESG Committee

The Board has established an Environmental, Social, and Corporate Governance ("ESG") Committee to establish the Company's ESG policy and to measure the sustainability and societal impact of the business. The ESG Committee currently comprises Kenneth Seymour (Chair), Paul Haywood and Simon Barry. During 2021, it comprised David Sandroshvili, Chris Brown and William McAvoek.

Principle Five: 'Maintain the Board as a well-functioning, balanced team led by the Chair'

The members of the Board have a collective responsibility and legal obligation to promote the interests of the Company, and are jointly responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the Chairman.

The Board currently consists of six directors, two of whom are executives and four independent non-executives (including the Chairman). The Board has established a set of committees to support its work (see Principle Nine below).

Board meetings are held regularly. All directors, executive and non-executive, are required to attend, and to make every effort to attend in person. They are also required to be available at other times as necessary for face-to-face (if permitted under Covid-19 restrictions) and telephonic and video conferencing meetings with staff and investors.

Executive and non-executive directors' attendance at Board and committee meetings during the year ended 31 December 2021 is summarised below:

Director name	Board meetings	Audit and Risk Committee	Remuneration Committee	Nominations Committee	Technical Committee
Jeremy Asher ⁽⁴⁾	6/21	2/5	3/6	1/2	
Chris Brown ⁽³⁾	13/21		3/6		
Philip Dimmock	21/21	5/5		2/2	6/7
Paul Haywood	21/21			2/2	
William McAvoek	21/21				
David Sandroshvili ⁽²⁾	13/21	3/5	3/6		
Kenneth Seymour ⁽⁵⁾	5/21		3/6		3/7
Charles Valceschini ⁽¹⁾	20/21	5/5			5/7

(1) Appointed as a director on 15 December 2020 and appointed to the Audit and Risk Committee, Technical Committee, and HSE Committee on 29 January 2021. Resigned as a director on 3 December 2021.

(2) Appointed as a director on 21 December 2020 and appointed to the Audit and Risk Committee, Remuneration Committee, Nominations Committee, and ESG Committee on 29 January 2021. Resigned as a director on 22 July 2021.

(3) Resigned as a director on 22 July 2021.

(4) Appointed as a director on 12 August 2021 and appointed to the Audit and Risk Committee on 13 August 2021, and to the Remuneration Committee, Nominations Committee, and Disclosure Committee on 8 December 2021.

(5) Appointed as a director on 7 September 2021 and appointed to the Audit and Risk Committee, Remuneration Committee, Technical Committee, ESG Committee, and HSE Committee on 8 December 2021.

Block Energy Plc

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The Board follows a schedule of regular business, financial and operational matters, and each committee has compiled a schedule of work to ensure that all areas for which the Board has responsibility are addressed and reviewed during the period. The Chairman is responsible for ensuring directors receive accurate, sufficient and timely information to facilitate their decision-making. The Company's Legal Counsel minutes the meetings. Directors are aware of the right to have any concerns minuted and to seek independent advice at the Company's expense where appropriate.

The Board has at least one formal meeting every six weeks. Papers are issued covering the full range of subjects of interest to the Board in good time for review prior to each meeting. The directors also dedicate time to committee meetings. The committees meet from two to four times a year. The directors will attend the AGM, whenever possible, and will review the Annual Report and Statement of Accounts in preparation. The directors also visit Georgia regularly (except when travel restrictions are in place) to perform safety inspections and meet staff and stakeholders. In addition to these formal events, the directors frequently discuss day-to-day Company matters in person and by conference call. The number of days committed to the Company is challenging to quantify because directors make themselves available as required.

The Board believes its blend of experience, skills, personal qualities and capabilities is sufficient to enable it to execute the Company's strategy successfully. The directors attend seminars and other regulatory and trade events to help ensure their knowledge remains current.

The Board has established a Nominations Committee, which meets at least twice a year. As well as making appointments to the Board it maintains a list of candidates for future selection.

Principle Six: 'Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities'

On the Company's admission to AIM in June 2018, the founding directors brought new directors onto the Board to ensure that the directors have the collective experience and skills to oversee the Company's activities and the successful execution of its strategy. Together, the directors have broad and deep experience in the governance of publicly listed companies, HSE management, well and production operations, petroleum reservoir engineering, geoscience, oil and gas field development, contract negotiation, commercial, finance, accounting and government and community relations. Furthermore, three of our directors have experience of applying all of these skills within Georgia.

Profiles of our executive and non-executive directors demonstrating their suitability for the responsibilities with which they have been entrusted are available in this report and the 'About Us' page of our website.

All of the directors accept personal responsibility for undertaking continuous professional development - through means including seminars, conferences and self-directed study - to understand and take advantage of the most recent developments in the sector, whether technical, commercial or related to governance.

The Nominations Committee will continue to assess the suitability of the Board's skills and expertise for developing and implementing the Company's strategy and, when warranted, will appoint new directors with the required skills.

The Board is kept abreast of developments of governance and AIM regulations. Hill Dickinson, the Company's lawyers, provides updates on governance issues. In the course of a new director's onboarding, the Company's nominated adviser, Spark Advisory Partners, provides the initial training on the AIM Rules for Companies.

The directors have access to the Company's nominated advisers, lawyers and auditors as and when required and are able to obtain advice from other external bodies when necessary.

Principle Seven: 'Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement'

The performance of each member of the Board (and senior management) is evaluated to assess their contribution to the Company's success. The Board is collectively responsible for the evaluation of the performance of each member. The executive directors are incentivised to seek continuous improvement and innovation through remuneration schemes linked to share price and, ultimately, Company performance.

Block Energy Plc

Governance Report

It is intended that a questionnaire method of measuring the performance of the Board will be introduced for the financial year ending 31 December 2021.

Principle Eight: 'Promote a corporate culture that is based on ethical values and behaviours'

Our core values underpin our long-term growth:

- We continually work to develop and maintain excellent relationships with all of our stakeholders: with staff, shareholders, suppliers and the communities within which our operations work is embedded.
- We are an agile and ambitious company with a team carefully selected for their skills and experience, commitment to our values, and dedication to the successful execution of our current and future strategy.
- We are committed to employing cost-effective technology and processes to achieve our objectives and deliver value to our stakeholders.
- We are courteous, honest and straightforward in all our dealings, honouring diversity, individuality and personal differences, and are committed to observing the highest personal, professional and ethical standards in conducting our business.
- We are acutely conscious of our particular responsibilities as an oil and gas producer. Our HSE obligations are the first operations-related agenda item at all of our Board meetings, and we have employed an experienced full time professional onsite in Georgia to develop and manage our HSE processes.

Our values are expressed and communicated regularly to staff through internal communications and forums. They are enshrined in the contract signed by all new employees, and evidence of commitment to these values by candidates is considered as part of the selection process.

The Board believes the suffusion of our core values across the Company's operations also gives Block a critical competitive advantage, improving our internal efficiency and the quality of our stakeholder relationships.

Principle Nine: 'Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board'

The Board is supported by the following governance structure:

The Board

The Board provides the Company's strategic leadership and operates within the scope of a robust corporate governance framework. It ensures the delivery of long-term shareholder value by setting and promoting the culture, values and practices that operate throughout the business, and defining the Company's strategic goals. The Board delegates certain defined responsibilities to its committees. The chair of each committee (defined below) reports its activities to the Board.

The Chairman has overall responsibility for the quality of corporate governance. The Chair:

- leads and chairs the Board;
- ensures that committees are properly structured and operate with appropriate terms of reference;
- ensures that performance of individual directors, the Board and its committees are reviewed on a regular basis;
- leads the development of strategy and setting objectives;
- oversees communication between the Company and its shareholders.

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The Chief Executive Officer oversees the coherent leadership and management of the Company. The CEO:

- leads the development of objectives, strategies and performance standards as agreed by the Board;
- monitors, reviews and manages key risks and strategies with the Board;
- ensures that the Company's assets are maintained and safeguarded;
- leads on investor relations activities to ensure the Company's standing with shareholders and financial institutions is maintained;
- ensures the Board is aware of the views and opinions of employees on relevant matters.

The executive directors are responsible for implementing and delivering the operational decisions agreed by the Board, making operational and financial decisions required in the day-to-day operation of the Company, providing executive leadership to managers, championing the Company's core values and promoting talent management.

The independent non-executive directors contribute independent thinking and judgement through the application of their external experience and knowledge, scrutinise the performance of management, provide constructive challenge to the executive directors, and ensure that the Company is operating within the governance and risk framework approved by the Board.

The executive directors are responsible for providing clear and timely information flow to the Board and its committees and the Company Secretary and Legal Counsel support the Board on matters of corporate governance and risk.

The matters reserved for the Board are:

- setting long-term objectives and commercial strategy;
- approving annual operating and capital expenditure budgets;
- establishing and monitoring the implementation of the HSE Policy and Management Plan
- changing the share capital or corporate structure of the Company;
- approving results and reports;
- approving dividend policy and the declaration of dividends;
- approving major investments, disposals, capital projects or contracts;
- approving resolutions to be put to general meetings of shareholders and the associated documents or circulars; and
- approving changes to the Board structure.

The Board has approved the adoption of the QCA Code as its governance framework against which this statement has been prepared. The Board will monitor the suitability of this Code on an annual basis and revise its governance framework as appropriate as the Company evolves.

Audit and Risk Committee

Please see the description of our Audit and Risk Committee above.

Nominations Committee

Please see the description of our Nominations Committee above.

Remuneration Committee

Please see the description of our Remuneration Committee above.

Disclosure Committee

Please see the description of our Disclosure Committee above.

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Governance Report

Technical Committee

Please see the description of our Technical Committee above.

HSE Committee

Please see the description of our HSE Committee above.

ESG Committee

Please see the description of our ESG Committee above.

Principle Ten: 'Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders'

All historical annual reports, notices of general meetings and other corporate governance related material are available on the 'Investors' section of our website. Here are brief summaries of the work of our committees since 30 June 2018:

Audit and Risk Committee Report

The Audit and Risk Committee meets as and when required to consider the Company's risks and mitigating actions (including financial controls), review plans and completion reports prepared by its auditor, and to review financial statements and recommend them for approval by the Board. The Audit and Risk Committee met five times during the year ended 31 December 2021.

Nominations Committee Report

The Nominations Committee meets as and when necessary to consider appointments to the Board and senior management positions and has met [nine] times during the year ended 31 December 2021. It has developed criteria for selecting non-executive directors to formulate a succession plan. During 2021, the Committee recruited two non-executive directors to the Board, and has a strategy for further strengthening the Board.

The Nominations Committee comprises two non-executive director members and one executive director member, as follows:

- Philip Dimmock (Chair)
- Jeremy Asher
- Paul Haywood

The Nominations Committee has responsibilities relating to:

- Reviewing the structure, size and composition of the Board and recommending any succession planning related changes required;
- Developing the process for appointments, and ensuring plans are in place for orderly succession to both the Board and senior management positions, and
- Overseeing the identifying and nominating of potential board candidates.

The Nominations Committee feels that, following the recruitment of the two non-executive directors in August and September 2021, the Company has a skilled and talented team of executives and managers in place that is fit for purpose for Block's current operations.

Remuneration Committee Report

See the Remuneration Report in the section below.

Disclosure Committee Report

There has been no call to convene the Disclosure Committee since 30 June 2018.

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Technical Committee Report

A Technical Committee meeting ("TCM") is usually held every six weeks and approximately one week before each board meeting. A brief summary of the key findings of each TCM is then added to the board papers for the board's information. Each TCM commences with a summary of HSE matters and is followed by sections on subsurface matters and surface (operational) matters. The agenda is agreed ahead of each TCM by the TCM Chairman and the respective technical managers.

The purpose of the TCM is to share key findings of the ongoing technical work programme and to provide a degree of independent peer review and critical assessment of work done. Minutes of the TCMs are produced and also a list of critical action points arising that are then reviewed at subsequent TCMs.

During the course of 2021, the Company drilled well WR-B01a and spudded well JKT-1Z.

HSE Committee Report

The HSE Committee is newly established and did not meet during 2021.

ESG Committee Report

During 2021, the ESG Committee was established and met once.

General Meeting voting

The Company maintains that, if there is a resolution passed to a General Meeting with 20% or more votes against, the Company will seek to understand the reason for the result and, where appropriate, take suitable action.

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Governance Report

Remuneration Report

This Remuneration Report covers the year ended 31 December 2021. The Remuneration Committee currently comprises Kenneth Seymour (Chairman) and Jeremy Asher, and, during the year ended 31 December 2021, comprised Chris Brown (Chairman) and David Sandroshvili. Paul Haywood at times attends as a guest, and other directors attend on an ad hoc basis. During the year, the Remuneration Committee met eight times.

Remuneration policy

The Remuneration Committee, in forming its policy on remuneration, gives due consideration to the needs of the Group, the shareholders, and the provisions of the QCA Code. The ongoing policy of the Remuneration Committee is to provide competitive remuneration packages to enable the Group to retain and motivate its key executives and to cost-effectively incentivise them to deliver long-term shareholder value.

The Remuneration Committee keeps itself informed of relevant developments and best practice in the field of remuneration and seeks advice where appropriate from external advisers. It maintains oversight of the remuneration of staff, which is the responsibility of the Chief Executive Officer.

The remuneration policy for the non-executive directors is determined by the Board, considering best practice and the Articles of Association. It is the aim of the Remuneration Committee to reward key executives for delivering value for the Group and for shareholders. The Remuneration Committee also applies the broader principle that Block Energy's executive remuneration should be competitive with the remuneration of directors of comparable companies.

Components of the remuneration package

The main components of the remuneration package for executive directors and senior management are:

- Base salary;
- Pension and other benefits;
- Performance-related annual cash bonus scheme; and
- Long-term incentive plan ("LTIP").

Base salary

The policy is to pay a fair and reasonable base salary, set around the median level of comparable companies. The base salary is reviewed at least annually by the Remuneration Committee, having regard to the performance of the Company and economic conditions and taking note of any changes to an individual's job scope.

During 2020, owing to the impact of lower demand for oil caused by Covid-19, the Brent oil price collapsed from over \$50 per barrel at the start of March 2020 to less than \$20 per barrel in April 2020. The Company responded by agreeing with its executive directors and senior management a scheme in which, with effect from 1 April 2020, 40% of their salary will be paid in nil-cost options to acquire Ordinary Shares in the Company, reducing monthly cash salary costs. Options are priced at a volume-weighted average price ("VWAP") over the monthly salary period. This cash salary sacrifice scheme continued throughout 2021 and will continue until economic conditions allow the full salary to be paid in cash.

Pension and other benefits

The Company pays for a pension contribution of 10% of base salary for the executive directors.

During 2022, the company intends to provide other benefits, such as private medical cover and life cover, for some of its employees.

Performance-related cash bonus scheme

The Remuneration Committee has developed a set of individual and Company key performance indicators ("KPIs") with the aim of measuring performance accurately, consistently and of rewarding performance appropriately.

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Governance Report

For executives and staff, the KPIs are weighted 60% for the individual and 40% for the company. The CEO has 100% of his salary available for a bonus payment, while the potential maximum bonus payment for the Chief Financial Officer is 60%. Senior management can receive up to 50% of their base salary as a bonus.

For each KPI, measures are established at the beginning of the period for Threshold, Target and Stretch levels.

The bonus payments made in April 2022 were for the year ended 31 December 2021 and were accrued in the 2021 accounts. In keeping with the current practice of preserving as much cash as possible for operations, these bonuses were paid mainly in the form of nil cost share options in lieu of cash. The next bonus payments are planned to be paid in early 2023, depending on the economic environmental conditions and the financial resources of the Company at that time, and will be for the year ending 31 December 2022.

Description of Company KPIs for the year ended 31 December 2021

- HSE - sought to reward top performance across all sections of the business and was measured by the number of lost time incidents. During the period there were no major lost time incidents and the Stretch measure was achieved.
- Production – set ambitious production targets to be achieved from all company operations, and the Threshold measure was not reached.
- Work Programme – set targets for in country operations, such as drilling and a level between the Target and the Stretch measures was achieved.
- Budget – encouraged meeting or coming under the agreed financial budget by setting targets for costs being below the budget, and a level between the Threshold and the Target measures was achieved.
- Governance - rewarded compliance with and enhancement of set company policies and procedures. For a company the size and maturity of Block Energy, a high standard of governance was maintained and the Stretch measure was achieved.
- Risk Register – regular meetings to review the risk register were held and the Stretch measure was achieved.

Description of Chief Executive Officer's KPIs for the year ended 31 December 2021

- Business Development and New Ventures – given the company's stated aim of becoming one of Georgia's leading oil and gas companies, there needs to be a concerted effort in building Block Energy's portfolio and, therefore, targets are designed to motivate the building of Block Energy's portfolio. The Threshold measure was achieved.
- Strategic Financing – growing the business requires sourcing additional funding and the Target measure was achieved with two financing proposals submitted to the board of directors.
- Planning / Execution - rewarded oversight of the company meeting its key objective of drilling a number of wells. Two wells were drilled during 2021 and the Target measure was achieved.
- Leadership – this is a discretionary measure. During the year, the Stretch measure was achieved.
- Investor Relations – the CEO secured the support of major shareholders to defeat two sets of resolutions that were put at two general meetings called by a shareholder group and therefore the Stretch measure was achieved.

Description of Chief Financial Officer KPIs for the year ended 31 December 2021

- Cost Management – close adherence of the agreed budget is required for both operations and G&A. Targets for costs being below the budgeted level were set, and a level between the Threshold and the Target measure was achieved.
- Value Adding Initiatives – the CFO is encouraged to pursue money saving initiatives throughout the year. In 2021, a number of these were identified and enacted and between the Target and the Stretch measures was achieved.
- Strategic Financing – the CFO is expected to ensure there are sufficient funds for running the business and future operations. In 2021, a level between the Threshold and the Target measures was achieved.
- Leadership – this is a discretionary measure. During the year, the CFO displayed good leadership and the Target measure was achieved.
- Investor Relations – the CFO helped to secure the support of major shareholders to defeat two sets of resolutions that were put at two general meetings called by a shareholder group and therefore the Stretch measure was achieved.

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Description of KPIs for the year ending 31 December 2022

For 2022, the executives have been set a similar set of KPIs as the ones set for the year ended 31 December 2021 at both company and individual levels, with the weighting of individual KPIs being 40% and the weighting of company KPIs being 60% of the total. The KPIs are based on production, work programme and cost management, in addition to HSE excellence at the corporate level.

At the individual level, KPIs for the Chief Executive Officer prioritised planning and execution, while KPIs for the Chief Financial Officer focused on cost management. Both CEO and CFO are expected to deliver on strategic financing.

Long-Term Incentive Plan ("LTIP")

The LTIP aligns executive director interests with those of shareholders and drives superior long-term performance. Under the LTIP, executive directors and other members of the management team may be provided with awards in the form of share options that will vest over a three year period. From January 2021, the vesting of any LTIP awards granted to executive directors is conditional on the certain performance milestones being satisfied.

Directors' remuneration

	Salary	Bonus	Fees	Pension	LTIP	Year ended 31 December 2021 Total	Year ended 31 December 2020 Total
	\$	\$	\$	\$	\$	\$	\$
Non-Executive Directors							
Jeremy Asher ⁶	-	-	16,000	-	-	16,000	-
Christopher Brown ³	-	-	23,206	-	-	23,206	37,220
Philip Dimmock	-	-	63,366	-	-	63,366	59,039
Roger McMechan ¹	-	-	-	-	-	-	12,684
David Sandroshvili ⁴	-	-	24,636	-	-	24,636	-
Kenneth Seymour ⁷	-	-	13,192	-	-	13,192	-
Charles Valceshini ⁵	-	-	40,186	-	-	40,186	-
Subtotal	-	-	180,586	-	-	180,586	108,943
Executive Directors							
Paul Haywood	265,175	198,880	-	26,517	76,943	567,515	441,662
Roger McMechan ²	-	-	-	-	-	-	158,411
William McAvoek	189,410	70,831	-	18,941	98,916	378,098	265,781
Subtotal	454,585	269,711	-	45,458	175,859	945,613	865,854
Total	454,585	269,711	180,586	45,458	175,859	1,126,199	974,797

¹ Resigned as a director on 30 September 2020.

² Resigned as an employee and transferred from an executive director to a non-executive director on 3 June 2020.

³ Resigned as a director on 22 July 2021.

⁴ Appointed as a director on 21 December 2020 and resigned as a director on 22 July 2021.

⁵ Appointed as a director on 15 December 2020 and resigned as a director on 3 December 2021.

⁶ Appointed as a director on 12 August 2021.

⁷ Appointed as a director on 7 September 2021.

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Governance Report

Directors' interests in shares

The directors who held office at the end of the year had the following interests in the Ordinary Shares of the Company:

	31 December 2021	31 December 2020
<u>Non-Executive Directors</u>		
Jeremy Asher	592,445	-
Philip Dimmock	1,678,289	626,649
Kenneth Seymour	1,019,108	-
Sub-total	3,289,842	626,649
<u>Executive Directors</u>		
Paul Haywood	12,544,381	2,143,419
William McAvock	4,039,130	-
Sub-total	16,583,511	2,143,419
Total	19,873,353*	2,770,068

*The directors held 3.04% of the total share capital of the Company at 31 December 2021.

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Governance Report

Directors' interests in options

The directors who held office at the end of the year had the following interests in options to acquire Ordinary Shares of the Company:

	31 December 2021	31 December 2020
<u>Non-Executive Directors</u>		
Jeremy Asher*	247,296	-
Philip Dimmock*	732,700	569,205
Kenneth Seymour*	208,646	-
Sub-total	1,188,642	569,205
<u>Executive Directors</u>		
Paul Haywood*	16,320,890	14,157,101
William McAvock*	9,430,278	4,554,052
Sub-total	25,751,168	18,711,153
Total	26,939,810	19,280,358

* The options issued to directors during both years were partly due to the issue of nil cost options in lieu of cash payment of 40%-50% of salary/fees

Director	Grant date	Expiry date	Life (years)	Number	Exercise price (pence)
Paul Haywood	9 June 2018	11 June 2028	10.0	7,756,428	4.0
Paul Haywood	1 March 2021	1 March 2031	10.0	6,000,000	4.0
Paul Haywood	6 April 2021 to 3 December 2021	6 April 2031 to 3 December 2031	10.0	2,564,462	0.0
William McAvock	21 October 2019	21 October 2029	10.0	3,125,000	11.0
William McAvock	1 July 2020 to 2 November 2020	1 May 2030 to 1 November 2030	10.0	494,526	0.0
William McAvock	1 March 2021	1 March 2031	10.0	4,500,000	4.0
William McAvock	6 April 2021 to 3 December 2021	6 April 2031 to 3 December 2031	10.0	1,310,752	0.0
Philip Dimmock	3 December 2021	December 2031	10.0	732,700	0.0
Jeremy Asher	1 September 2021 to 3 December 2021	1 September 2031 to 3 December 2031	10.0	247,296	0.0
Kenneth Seymour	2 October 2021 to 3 December 2021	2 October 2031 to 3 December 2031	10.0	208,646	0.0
				26,939,810	

Kenneth Seymour
Chairman of the Remuneration Committee
 30 June 2022

Block Energy Plc

Independent Auditor's Report

Independent auditor's report to the members of Block Energy Plc

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006;; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Block Energy Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise the consolidated the statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, the Parent Company statement of financial position, the Parent Company statement of changes in equity, the Parent Company statement of cashflows and the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's 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 remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to note 1 of the financial statements which notes the uncertainty in the global economy, oil prices, and the potential consequential impact on the Group's ability to secure additional funding. It further notes that these uncertainties may bring practical challenges to the timetables for drilling new wells and the consequent sale of oil and gas from those wells. Should such downside scenarios occur the Group and Parent Company would be required to secure further funding. As stated in note 1, these conditions are necessarily considered to represent a material uncertainty that may cast significant doubt over the Group's and the Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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. Given the conditions and uncertainties disclosed in note 1, we considered going concern to be a Key Audit Matter. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting and in response to the Key Audit Matter included evaluating the following:

- We critically assessed the Directors' financial forecasts through comparing actual outcomes in the current year against prior forecasts. Underlying key assumptions, including revenue, production volumes, operating and capital expenditure were assessed by considering factors such as commitments under

Block Energy Plc

Independent Auditor's Report

licences, historical revenue profiles, historical actuals and forecasted production levels, and operating expenditure historic actuals in order to assess the reasonableness of the forecasts.

- We considered the Group's ability to produce gas and sell oil and gas at increased levels during a period of at least twelve months from the date of approval of the financial statements. We considered sensitivities over various sales volumes.
- We assessed the reasonableness of key assumptions underpinning the forecasts by reference to Brent crude oil prices, Georgian gas prices, current production sharing agreements, expenditure and commitments and considered the implications of the trends in the global economy on the Group. As appropriate we confirmed the key inputs to publically available information and underlying source documentation.
- We performed sensitivity analysis on the cash flow forecast to consider the available headroom under different reasonably possible scenarios such as a decrease in oil and gas prices, an increase in exchange rate, lower than anticipated initial production rates from new wells and additional capex.
- We performed a reverse stress test that considered the possible impact on cash flows if no production were to occur on WR-B01 well.
- We made enquiries of Management and Directors and reviewed Board minutes and key operational contracts to assess the completeness of commitments considered in the cash flow forecasts.
- We evaluated the adequacy of disclosures made in the financial statements in respect of going concern.

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

Overview

Coverage¹	97% (2020: 94%) of Group loss before tax 93% (2020: 98%) of Group total assets 99% (2020: 100%) of Group Revenue		
Key audit matters		2021	2020
	1. Carrying value oil and gas development assets	✓	✓
	2. Going concern	✓	✓
	3. Business combination	✓	✓
Materiality	Group financial statements as a whole \$482,000 (2020:\$300,000) based on 1.5% (2020: 1%) of Total Assets		

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Our Group audit scope focused on the companies within the Group which hold the Group's assets being Block Energy Plc, Block Norioskhevi Limited, Georgian New Ventures Inc, Block Rustaveli Limited and Block Operating Company LLC which were all subject to a full scope audit. Together with the Group consolidation, which was also subject to a full scope audit, these represented the significant components of the Group. All audit work on the significant components was conducted by the Group audit team with the assistance of staff from the local Georgian BDO Member Firm.

¹These are areas which have been subject to specific and full scope audit procedures.

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Independent Auditor's Report

The remaining components of the Group were considered non-significant and were principally subject to analytical review procedures. These procedures were performed by the Group audit team.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our 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) that we identified, 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 were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty related to going concern section, we have determined the matters described below to be the key audit matter to be communicated in our report.

Key audit matter		How the scope of our audit addressed the key audit matter
<p>Carrying value of oil and gas development assets Refer to Accounting policies and Note 13.</p>	<p>The Group's development and production assets ("D&P") which are categorised within property, plant and equipment represent the most significant asset on the consolidated statement of financial position (see note 13). As explained in Note 1 to the consolidated financial statements, the indicators of impairment assessment in relation to the D&P assets under the relevant accounting standard and the resulting assessment of the assets' recoverable amount require the exercise of significant judgement by Management and the Directors.</p> <p>Management and the Directors are required to assess whether there are any potential impairment triggers which would indicate that the carrying value of the assets may not be recoverable for each cash generating unit.</p> <p>Management and the Directors identified the current market capitalisation of the Group during the period as an impairment trigger, and as a result, performed a detailed assessment of the recoverable amount of the D&P assets in accordance with the relevant accounting standards.</p> <p>Given the significance of the assets to the Group's</p>	<p>We evaluated the Directors' and Management's impairment review for each cash generating unit identified. We critically challenged the considerations made regarding indicators of impairment identified and the resulting assessment of the recoverable amount of the assets in accordance with the relevant accounting standards by performing the following procedures:</p> <ul style="list-style-type: none"> • We assessed the Directors' and Management's impairment indicator review to establish whether it was performed in accordance with the requirements of the relevant accounting standards. • We obtained and read third party documents relating to the licence status and commitments to check legal title and validity of each of the licences. • We assessed the function of the operating facilities through enquiries of Directors and Management in order to confirm our understanding of the operations and in order to assess whether there are any additional indicators of impairment. We further reviewed board minutes and other publicly available information. • We agreed the key assumptions used by the Directors and Management in determining the recoverable amount of the D&P asset such as oil price and discount rates and compared to industry averages and benchmarked these against publicly available information and other third party information. We considered assumptions such as

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	<p>consolidated statement of financial position and the significant management judgements and estimates involved in this area, we considered this a key audit matter.</p>	<p>production levels and sales in the light of historic results and underlying agreements such as the production sharing agreements and performed sensitivity analysis to determine the appropriateness thereof.</p> <ul style="list-style-type: none"> • We reviewed third party reports obtained from the Directors and Management's experts relating to the reserves and resources impacting the impairment model. • We performed an assessment of the competence, independence and objectivity of the expert. <p>Key observations: Based on the work performed we considered the key assumptions used by Management and the Directors in performing their impairment assessment to be reasonable and appropriate.</p>
<p>Business combination</p> <p>Refer to Accounting Policies and Note 12.</p>	<p>On 23 November 2020 the Group acquired a new subsidiary, Block Rustaveli Limited ('BRL'), which included material producing oil and gas assets and inventory balances.</p> <p>Management's and the Directors' assessment of the transaction required making a number of judgements, for example fair value judgements, and the resulting accounting can be complex.</p> <p>Provisional fair values were used to value the assets and liabilities acquired and assumed in the business combination as at 31 December 2020. The provisional fair values were finalised in the 2021 reporting period.</p> <p>Given the significant management judgements and estimates involved to determine the final fair values this was considered to be a key audit matter.</p>	<p>We critically challenged the Group's considerations of their assessment of the fair value of the net assets acquired in accordance with the relevant accounting standards.</p> <p>In so doing we performed the following procedures:</p> <ul style="list-style-type: none"> • We challenged the Directors' and Management's determination of the fair value of the assets, liabilities and any contingent assets and liabilities acquired in order to assess whether the fair values are supportable by agreeing those fair values to third party valuation reports prepared to determine a range of fair values defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. • We challenged the Directors' and Management's assessment of contingent liabilities evident in the PSC as identified by the expert. • We performed an assessment of the competence, independence and objectivity of the expert. <p>Key observations: Based on the work performed we considered the key assumptions used by Management and the Directors in performing their assessment of the final fair values of the transaction to be reasonable and appropriate.</p>

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Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

	Group financial statements		Parent Company financial statements	
	2021 US\$	2020 US\$	2021 US\$m	2020 US\$
Materiality	482,000	300,000	433,000	220,000
Basis for determining materiality	1.5% of Total Assets	1.% of Total Assets	90% of Group Materiality	80% of Group Materiality
Rationale for the benchmark applied	We considered total assets to be the most significant consideration for users of the financial statements as the Group continues to develop its portfolio of oil and gas assets through to production. The increase in the basis for materiality is indicative of our enhanced understanding of the entity's significant components and assets and experience of the Company and Group.		Capped at 80% or 90%, for the respective period, of Group materiality given the assessment of the components aggregation risk, and size based on total assets of the Group. The increase in the basis for materiality is indicative of our enhanced understanding of the Parent Company.	
Performance materiality	362,000	225,000	325,000	165,000
Basis for determining performance materiality	75% (2020: 75%) of materiality . In reaching our conclusion on the level of performance materiality to be applied we considered a number of factors including the expected total value of known and likely misstatements (based on past experience), our knowledge of the Group's control environment and management's attitude towards proposed adjustments.			

Component materiality

We set materiality for each component of the Group based on a percentage of between 50% and 90% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Where the statutory materiality for the Parent company was lower to the Group allocated materiality, the lower value was selected as a final component materiality. Component materiality ranged from \$152,000 to \$443,000 (2020: \$150,000 to \$220,000). In the audit of each component, we further applied performance materiality levels of 75% (2020: 75%) of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

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Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of US\$9,000 (2020: US\$6,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none">the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; andthe Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. <p>In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.</p>
Matters on which we are required to report by exception	<p>We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:</p> <ul style="list-style-type: none">adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; orthe Parent Company financial statements are not in agreement with the accounting records and returns; orcertain disclosures of Directors' remuneration specified by law are not made; orwe have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors 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 the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and

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using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined 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:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and Parent Company and the industry in which it operates, and considered the risk of acts by the Group and Parent Company that were contrary to applicable laws and regulations, including fraud.
- We considered the significant laws and regulations to be those relating to the accounting framework, Companies Act 2006, tax legislation and Oil and Gas Regulations.
- Based on our understanding we designed our audit procedures to identify non-compliance with such laws and regulations impacting the Group and Parent Company. Our procedures involved making enquiries of Management and those charged with governance to understand their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees of the Group and Parent Company, inquiring about the Group and Parent Company's methods of enforcing and monitoring compliance with such policies and reviewing board minutes to identify any instances of non-compliance.
- We assessed the susceptibility of the Group and Parent Company's financial statements to material misstatement, including how fraud might occur by obtaining an understanding of the controls that the Group and Parent Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud and considered this to be in management override of controls.
- We addressed the risk of management override of internal controls, including testing a risk based selections of journals and evaluating whether there was evidence of bias in Management's estimates that represented a material misstatement due to fraud.
- We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that 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, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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Independent Auditor's Report

DocuSigned by:

Anne Sayers

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Anne Sayers (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
30 June 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

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Consolidated Statement of Comprehensive Income for the year ended 31 December 2021

	Note	Year ended 31 December 2021	Year ended 31 December 2020
Continuing operations		\$'000	\$'000
Revenue	4	6,114	1,255
<i>Other cost of sales</i>		<i>(2,982)</i>	<i>(2,203)</i>
<i>Depreciation and depletion of oil and gas assets</i>	5	<i>(2,901)</i>	<i>(781)</i>
Total cost of sales		(5,883)	(2,984)
Gross profit / (loss)		231	(1,729)
<i>Other administrative costs</i>		<i>(3,432)</i>	<i>(3,295)</i>
<i>Share based payments charge</i>		<i>(1,494)</i>	<i>(641)</i>
Total administrative expenses	6,7	(4,926)	(3,936)
Foreign exchange movement		(6)	49
Operating loss		(4,701)	(5,616)
Finance income	8	-	14
Other income	9	5	100
Finance expense		(87)	(10)
Loss for the year before taxation		(4,783)	(5,512)
Taxation	10	-	-
Loss for the year from continuing operations (attributable to the equity holders of the parent)		(4,783)	(5,512)
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translation of foreign operations		202	(389)
Total comprehensive loss for the year (attributable to the equity holders of the parent)		(4,581)	(5,901)
Loss per share basic and diluted	11	(0.76)c	(1.31)c

All activities relate to continuing operations.

The notes on pages 51 to 75 form part of these consolidated financial statements.

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Consolidated Statement of Financial Position at 31 December 2021

		31 December 2021	31 December 2020
	Note	\$'000	\$'000
Non-current assets			
Property, plant and equipment	13	24,345	21,311
Current assets			
Inventory	14	4,585	4,114
Trade and other receivables	16	752	2,256
Cash and cash equivalents	17	1,244	6,331
Total current assets		6,581	12,701
Total assets		30,926	34,012
Equity and liabilities			
Capital and reserves attributable to equity holders of the Parent Company:			
Share capital	19	3,482	3,353
Share premium	20	34,625	34,234
Other reserves	21	10,260	9,120
Foreign exchange reserve		246	44
Accumulated deficit		(21,548)	(17,057)
Total equity		27,065	29,694
Liabilities			
Trade and other payables	18	1,556	1,656
Provisions	15	2,305	2,662
Total current liabilities		3,861	4,318
Total equity and liabilities		30,926	34,012

The financial statements were approved by the Board of Directors and authorised for issue on 30 June 2022 and were signed on its behalf by:



William McAvock
Director



Paul Haywood
Director

The notes on pages 51 to 75 form part of these consolidated financial statements.

Block Energy Plc

Consolidated Statement of Changes in Equity at 31 December 2021

	Share Capital \$'000	Share Premium \$'000	Accumulated deficit \$'000	Other Reserves \$'000	Foreign Exchange Reserve \$'000	Total Equity \$'000
Balance at 31 December 2019	2,623	27,985	(11,545)	1,114	433	20,610
Loss for the year	-	-	(5,512)	-	-	(5,512)
Exchange differences on translation of foreign operations	-	-	-	-	(389)	(389)
<i>Total comprehensive loss for the year</i>	-	-	(5,512)	-	(389)	(5,901)
Issue of share options on acquisition of BRL	-	-	-	7,304	-	7,304
Issue of shares	730	6,654	-	-	-	7,384
Cost of issue	-	(405)	-	-	-	(405)
Share based payments	-	-	-	702	-	702
<i>Total transactions with owners</i>	730	6,249	-	8,006	-	14,985
Balance at 31 December 2020	3,353	34,234	(17,057)	9,120	44	29,694
Loss for the year	-	-	(4,783)	-	-	(4,783)
Exchange differences on translation of foreign operations	-	-	-	-	202	202
<i>Total comprehensive loss for the year</i>	-	-	(4,783)	-	202	(4,581)
Issue of shares	52	255	-	-	-	307
Share based payments	-	-	-	1,494	-	1,494
Options exercised	77	136	210	(272)	-	151
Options expired	-	-	82	(82)	-	-
<i>Total transactions with owners</i>	129	391	292	1,140	-	1,952
Balance at 31 December 2021	3,482	34,625	(21,548)	10,260	246	27,065

The notes on pages 51 to 75 form part of these consolidated financial statements.

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Consolidated Statement of Cashflows for the year ended 31 December 2021

		Year ended 31 December 2021	Year ended 31 December 2020
	Note	\$'000	\$'000
Cash flow from operating activities			
Loss for the year before tax		(4,783)	(5,512)
<i>Adjustments for:</i>			
Depreciation and depletion	5	2,901	781
Decommissioning finance charge	15	66	-
Impairment of PP&E	2,13	-	172
Disposal of PP&E at nil value		49	-
Other income	8	(5)	(15)
Finance expense		3	9
Share based payments expense	7	1,494	641
Foreign exchange movement		6	(49)
Operating cash flows before movements in working capital		(269)	(3,973)
Increase in trade and other receivables		(4)	(513)
Increase in trade and other payables		179	342
(Increase)/ decrease in inventory		(471)	955
Net cash used in operating activities		(565)	(3,189)
Cash flow from investing activities			
Cash received from acquisition of BRL		278	-
Income received		5	15
Expenditure in respect of intangible assets		-	-
Expenditure in respect of PP&E		(6,407)	(2,617)
Net cash used in investing activities		(6,124)	(2,602)
Cash flow from financing activities			
Proceeds from issue of equity		1,465	5,754
Costs related to issue of equity		-	(405)
Interest paid		(3)	(9)
Net cash inflow from financing activities		1,462	5,340
Net decrease in cash and cash equivalents in the year		(5,227)	(451)
Cash and cash equivalents at start of year		6,331	6,494
Effects of foreign exchange rate changes on cash and cash equivalents		140	288
Cash and cash equivalents at end of year		1,244	6,331

The notes on pages 51 to 75 form part of these consolidated financial statements.

Significant non-cash transactions

The only significant non-cash transactions were the issue of shares and share options detailed in notes 19 and 23.

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Notes forming part of the Consolidated Financial Statements

Corporate information

Block Energy Plc ("Block Energy") gained admission to AIM on the 11 June 2018, trading under the symbol of BLOE.

The Consolidated financial statements of the Group, which comprises Block Energy Plc and its subsidiaries, for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the directors on 30 June 2022. Block Energy is a Company incorporated in the UK whose shares are publicly traded. The address of the registered office is given in the officers and advisers section of this report. The Company's administrative office is in London, UK.

The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 3 to 21 and the Report of the Directors on pages 22 to 24.

1. Significant Accounting policies

IAS 8 requires that management shall use its judgement in developing and applying accounting policies that result in information which is relevant to the economic decision-making needs of users, that are reliable, free from bias, prudent, complete and represent faithfully the financial position, financial performance and cash flows of the entity.

Basis of preparation

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. In the prior year, the Group changed its presentational currency from the pound sterling to the US dollar, which represented a change in accounting policy. All amounts presented are in thousands of US dollars unless otherwise stated. Foreign operations are included in accordance with the policies set out below.

The consolidated financial statements have been prepared in accordance with UK international accounting standards and in conformity with the requirements of the Companies Act 2006. The Financial Statements have also been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based, or as a result of new information or more experience. Such changes are recognised in the period in which the estimate is revised.

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Notes forming part of the Consolidated Financial Statements(continued)

New and amended standards adopted by the Group

There were no new or amended accounting standards adopted by the Group for the year ended 31 December 2021.

New accounting standards issued but not yet effective

The standards and interpretations that are relevant to the Group, issued, but not yet effective, up to the date of the Financial Statements are listed below. The Group intends to adopt these standards, if applicable, when they become effective.

Standard	Impact on initial application	Effective date
IFRS 17	Insurance Contracts	1 January 2023
IFRS 10 and IAS 28 (Amendments)	Long term interests in associates and joint ventures	Unknown
Amendments to IAS 1	Classification of Liabilities as current or non-current	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12	Deferred Tax Related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before intended use	1 January 2022
Amendments to IAS 37	Onerous contracts – Cost of fulfilling a contract	1 January 2022
Annual Improvements to IFRS Standard 2018-2020 Cycle	Amendments to IFRS 1 First time adoption of IFRS, IFRS 9 Financial Instruments, IFRS Leases	1 January 2022

The Directors have evaluated the impact of transition to the above standards and do not consider that there will be a material impact of transition on the financial statements.

Basis of consolidation

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control. De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Company considers all relevant facts and circumstances, including:

- The size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;
- Substantive potential voting rights held by the Company and by other parties;
- Other contractual arrangements; and
- Historic patterns in voting attendance.

Business combinations and Goodwill

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the consolidated statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The difference between the consideration paid and the acquired net assets is recognised as goodwill. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained. Any difference arising between the fair value and the tax base of the acquiree's assets and liabilities that give rise to a deductible difference results in recognition of deferred tax liability. No deferred tax liability is recognised on goodwill. For the purposes of the current period of reporting the figures related to the transaction accounting are considered provisional as permitted under the requirements of the accounting

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Notes forming part of the Consolidated Financial Statements (*continued*)

standards. These figures will be finalised within a period of twelve months from the acquisition date of the transaction.

Acquisitions

The Group and Company measure goodwill at the acquisition dates as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree
- Plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Cost related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Asset Acquisition

Acquisitions of mineral exploration licences through the acquisition of non-operational corporate structures that do not represent a business, and therefore do not meet the definition of a business combination, are accounted for as the acquisition of an asset. An example of such would be increases in working interests in licences.

The consideration for the asset is allocated to the assets based on their relative fair values at the date of acquisition.

Going concern

The directors have prepared cash flow forecasts for a period of 18 months from the date of signing these financial statements. The Group's forecasts are reviewed regularly to assess whether any actions to curtail expenditure or cut costs are required. The Group is in the final stages of preparing to drill a horizontal sidetrack in the WR-B1 well followed by sidetracks of other wells. The forecasts assume the wells will produce oil and gas, which would be sold, and indicate the Group has sufficient funds to complete the drilling of the wells and to meet its liabilities as they fall due until December 2023. However, if any of the new wells do not produce commercial quantities of oil or gas, the Group would immediately revisit its plans to drill subsequent wells. The financial benefit of any additional capital projects would be assessed against capital requirements and balanced with ensuring that the Group and the Company can continue to meet their liabilities and commitments through to December 2023. The Company's forecasts are considered together with the Group's forecasts.

The Group's operations presently generate sufficient revenues to cover operating costs and capital expenditures, supporting the continued preparation of the Group's accounts on a going concern basis. The directors are nevertheless conscious that oil prices have risen rapidly during the past twelve months due in part to recent global political uncertainty, and could rise further but could also fall back in the year ahead, and that future production levels depend, in part on the success of future drilling. As part of their going concern assessment, the directors have performed a reverse stress test on a low oil price scenario in which future drilling is inhibited or unsuccessful, and have concluded that it remains possible that future revenues in such a scenario might not cover all operating costs and planned capital expenditures, creating a material uncertainty that may cast doubt over the Group's ability to continue as a going concern. Whilst acknowledging this material uncertainty, the directors remain confident of making further cost savings and/or raising finance when required and, therefore, the directors consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

Intangible Assets

Exploration and evaluation costs

The Group applies the full cost method of accounting for Exploration and Evaluation (E&E) costs, having regard to the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'. Under the full cost method of accounting, costs of exploring and evaluating properties are accumulated and capitalised by

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Notes forming part of the Consolidated Financial Statements (*continued*)

reference to appropriate cash generating units ("CGUs"). Such CGU's are based on geographic areas such as a licence area, type or a basin and are not larger than an operating segment - as defined by IFRS 8 'Operating segments'.

E&E costs are initially capitalised within 'Intangible assets'. Such E&E costs may include costs of licence acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, but do not include costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to the statement of comprehensive income as they are incurred. Plant and equipment assets acquired for use in exploration and evaluation activities are classified as property, plant and equipment.

However, to the extent that such an asset is consumed in developing an unproven oil and gas asset, the amount reflecting that consumption is recorded as part of the cost of the unproven oil and gas asset.

Exploration and unproven oil and gas assets related to each exploration license/prospect are not amortised but are carried forward until the technical feasibility and commercial feasibility of extracting a mineral resource are demonstrated.

Impairment of Exploration and Evaluation assets

All capitalised exploration and evaluation assets and property, plant and equipment are monitored for indications of impairment. Where a potential impairment is indicated, assessment is made for the Group of assets representing a cash generating unit.

In accordance with IFRS 6 the Group firstly considers the following facts and circumstances in their assessment of whether the Group's exploration and evaluation assets may be impaired, whether:

- the period for which the Group has the right to explore in a specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- unexpected geological occurrences render the resource uneconomic;
- a significant fall in realised prices or oil and gas price benchmarks render the project uneconomic; or
- an increase in operating costs occurs.

If any such facts or circumstances are noted, the Group perform an impairment test in accordance with the provisions of IAS 36.

The aggregate carrying value is compared against the expected recoverable amount of the cash generating unit. The recoverable amount is the higher of value in use and the fair value less costs to sell. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount. A reversal of impairment loss is recognised in the profit or loss immediately.

Property, plant and equipment – development and production (D&P) assets

Capitalisation

The costs associated with determining the existence of commercial reserves are capitalised in accordance with the preceding policy and transferred to property, plant and equipment as development assets following impairment testing. All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons have been demonstrated are capitalised within development assets on a field-by-field basis. Subsequent expenditure is only capitalised where it either enhances the economic benefits of the development asset or replaces part of the existing development asset (where the remaining cost of the original part is expensed through the income statement). Costs of borrowing related to the ongoing construction of development and production assets and facilities are capitalised during the construction phase. Capitalisation of interest ceases once an asset is ready for production.

Depreciation

Capitalised oil assets are not subject to depreciation until commercial production starts. Depreciation is calculated on a unit-of-production basis in order to write off the cost of an asset as the reserves that it represents are produced and sold. Any periodic reassessment of reserves will affect the depreciation rate on a prospective basis. The unit-of-production depreciation rate is calculated on a field-by-field basis using proved, developed reserves as the denominator and capitalised costs as the numerator. The numerator includes an estimate of the costs expected to be incurred to bring proved, developed, not-producing reserves into production. Infrastructure that is common to a number of fields, such as gathering systems, treatment

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Notes forming part of the Consolidated Financial Statements (*continued*)

plants and pipelines are depreciated on a unit-of-production basis using an aggregate measure of reserves or on a straight line basis depending on the expected pattern of use of the underlying asset.

Proven oil and gas properties

Oil and gas properties are stated at cost less accumulated depreciation and impairment losses. The initial cost comprises the purchase price or construction cost including any directly attributable cost of bringing the asset into operation and any estimated decommissioning provision.

Once a project reaches the stage of commercial production and production permits are received, the carrying values of the relevant exploration and evaluation asset are assessed for impairment and transferred to proven oil and gas properties and included within property plant and equipment.

Proven oil and gas properties are accounted for in accordance with provisions of the cost model under IAS 16 "Property Plant and Equipment" and are depleted on unit of production basis based on the estimated proven and probable reserves of the pool to which they relate.

Impairment of development and production assets

A review is performed for any indication that the value of the Group's D&P assets may be impaired such as:

- significant changes with an adverse effect in the market or economic conditions which will impact the assets; or
- obsolescence or physical damage of an asset; or
- an asset becoming idle or plans to dispose of the asset before the previously expected date; or
- evidence is available from internal reporting that indicates that the economic performance of an asset is or will be worse than expected.

For D&P assets when there are such indications, an impairment test is carried out on the CGU. CGUs are identified in accordance with IAS 36 'Impairment of Assets', where cash flows are largely independent of other significant asset Groups and are normally, but not always, single development or production areas. When an impairment is identified, the depletion is charged through the Consolidated Statement of Comprehensive Income if the net book value of capitalised costs relating to the CGU exceeds the associated estimated future discounted cash flows of the related commercial oil reserves.

The CGU's identified by the company are Corporate along with West Rustavi, Rustaveli, Satskhenisi and Norio given they are independent projects under individual Production Sharing Contracts ("PSCs"). An assessment is made at each reporting as to whether there is any indication that previously recognised impairment charges may no longer exist or may have decreased. If such an indication exists, the Group estimates the recoverable amount. A previously recognised impairment charge is reversed only if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment charge was recognised. If this is the case the carrying amount of the asset is increased to its recoverable amount, not to exceed the carrying amount that would have been determined, net of depreciation, had no impairment charges been recognised for the asset in prior years.

Property, plant and equipment and depreciation

Property, plant and equipment which are awaiting use in the drilling campaigns, and storage, are recorded at historical cost less accumulated depreciation. Property, plant and equipment are depreciated using the straight line method over their estimated useful lives, as follows:

- PP&E - 6 years

The carrying value of Property, plant and equipment is assessed annually and any impairment charge is charged to the Consolidated Statement of Comprehensive income.

Leases

In the current year, the Group adopted 'IFRS 16: Leases', which requires operating and finance leases to be accounted for in a consistent manner. There was no material impact on the Group from the adoption of this standard year-on-year.

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Notes forming part of the Consolidated Financial Statements (continued)

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Inventories

Crude oil inventories are stated at the lower of cost and net realisable value. The cost of crude oil is the cost of production, including direct labour and materials, depreciation and an appropriate portion of fixed overheads allocated based on normal operating capacity of the production facilities, determined on a weighted average cost basis. Net realisable value of crude oil is based on the market price of similar crude oil at the balance sheet date and costs to sell, adjusted if the sale of inventories after that date gives additional evidence about its net realisable value at the balance sheet date.

The cost of crude oil is expensed in the period in which the related revenue is recognised.

Inventories of drilling tubulars and drilling chemicals are valued at the lower of cost or net realisable value, where cost represents the weighted average unit cost for inventory lines on a line by line basis. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Decommissioning provision

Provisions for decommissioning are recognised in full when wells have been suspended or facilities have been installed.

A corresponding amount equivalent to the provision is also recognised as part of the cost of either the related oil and gas exploration and evaluation asset or property, plant and equipment as appropriate. The amount recognised is the estimated cost of decommissioning, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements.

Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to the related asset.

The unwinding of the discount on the decommissioning provision is included as a finance cost.

Taxation and deferred tax

Income tax expense represents the sum of the current tax and deferred tax charge for the period.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases and is accounted for using the balance sheet liability method.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Judgement is applied in making assumptions about future taxable income, including oil and gas prices, production, rehabilitation costs and expenditure to determine the extent to which the Group recognises deferred tax assets, as well as the anticipated timing of the utilisation of the losses.

Deferred tax is calculated at the tax rates that have been enacted or substantively enacted and are expected to apply in the period when the liability is settled, or the asset realised. Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the rates of exchange prevailing at the reporting date: \$1.3523/£1 (2020: \$1.3678/£1). Transactions in foreign

Block Energy Plc

Notes forming part of the Consolidated Financial Statements (*continued*)

currencies are translated at the exchange rate ruling at the date of the transaction. Exchange differences are taken to the Statement of Comprehensive Income.

The Company's functional currency is the pound sterling and its presentational currency is the US dollar and accordingly the financial statements have also been prepared in US dollars. The functional currencies of Block Norioskhevi Ltd, Satskhenisi Limited, Georgia New Ventures Inc and Block Rustaveli Limited are the US dollar and the functional currencies of their branches in Georgia are the Georgian Lari.

Foreign operations

The assets are translated into US dollars at the exchange rate at the reporting date and income and expenses of the foreign operations are translated at the average exchange rates. Exchange differences arising on translation are recognised in other comprehensive income and presented in the other reserves category in equity.

Determination of functional currency and presentational currency

The determination of an entity's functional currency is assessed on an entity by entity basis. A company's functional currency is defined as the currency of the primary economic environment in which the entity operates. The functional currency of the Parent Company is the pound sterling, because it operates in the UK, where the majority of its transactions are in pounds sterling. The functional currencies of Block Norioskhevi Ltd, Satskhenisi Limited, Georgia New Ventures Inc and Block Rustaveli Limited are the US dollar, because the majority of their transactions by value is in US dollars, and the functional currencies of their branches in Georgia are the Georgian Lari, because the majority of their transactions by value is in Georgian Lari.

The presentational currency of the Group for year ended 31 December 2021 is US dollars. The presentational currency is an accounting policy choice.

Revenue

Revenue from contracts with customers is recognised when the Group satisfies its performance obligation of transferring control of oil or gas to a customer. Transfer of control is usually concurrent with both transfer of title and the customer taking physical possession of the oil or gas, which is determined by reference to the oil or gas sales agreement. This performance obligation is satisfied at that point in time.

The transaction price is agreed between the Group and the customer, with the amount of revenue recognised being determined by considering the terms of the Production Sharing Contract ("PSC") and the oil sales agreement for each oil sale or the gas sales agreement for each gas sale.

Finance income and expenses

Finance costs are accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Finance expenses comprise interest or finance costs on borrowings.

Financial instruments

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All assets and liabilities, for which fair value is measured or disclosed in the Financial Statements, are categorised within the fair value hierarchy, described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;

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Notes forming part of the Consolidated Financial Statements (*continued*)

Level 2 – valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3 – valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

Financial assets

Financial assets are initially recognised at fair value, and subsequently measured at amortised cost, less any allowances for losses using the expected credit loss model, being the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive.

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset.

For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit and loss (FVTPL) or as other financial liabilities. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged or cancelled, or they expire.

Financial liabilities are classified at FVTPL when the financial liability is either held for trading or it is designated at FVTPL. A financial liability is classified as held for trading if it has been incurred principally for the purpose of repurchasing it in the near term or is a derivative that is not a designated or effective hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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 through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Share based payments

The fair value of options granted to directors and others in respect of services provided is recognised as an expense in the Statement of Comprehensive Income with a corresponding increase in equity reserves – 'other reserves'.

On exercise or cancellation of share options, the proportion of the share based payment reserve relevant to those options is transferred from other reserves to the accumulated deficit. On exercise, equity is also increased by the amount of the proceeds received.

The fair value is measured at grant date and charged over the accounting periods which the option becomes unconditional.

The fair value of options are calculated using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Vesting conditions are non-market and there are no market vesting conditions. These vesting conditions are included in the assumptions about the number of options that are expected to vest. At the end of each reporting period, the Company revises its estimate of the number of options that are expected to vest. The exercise price is fixed at the date of grant and no

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Notes forming part of the Consolidated Financial Statements (*continued*)

compensation is due at the date of grant. Where equity instruments are granted to persons other than employees, the statement of comprehensive income is charged with the fair value of the goods and services received.

Warrants issued for services rendered are accounted for in accordance with IFRS 2 recognising either the costs of the service if it can be reliably measured or the fair value of the warrant (using the Black-Scholes model). The fair value is recognised as an expense in the accounting period that the warrant is granted and there is no revision to this estimate in future accounting periods.

Warrants issued as part of share issues have been determined as equity instruments under IAS 32. Since the fair value of the shares issued at the same time is equal to the price paid, these warrants, by deduction, are considered to have been issued at nil value.

2. Critical accounting judgments, estimates and assumptions

The Group makes estimates and assumptions regarding the future. Estimates and judgements are continuously evaluated based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Recoverable value of Development & Production assets – judgement, estimates and assumptions

Costs capitalised in respect of the Group's development and production assets are required to be assessed for impairment under the provisions of IAS 36. Such an estimate requires the Group to exercise judgement in respect of the indicators of impairment and also in respect of inputs used in the models which are used to support the carrying value of the assets. Such inputs include estimates of oil and gas reserves, production profiles, oil price, oil quality discount, capital expenditure (including an allocation of salary costs), inflation rates, and pre-tax discount rates that reflect current market assessments of (a) the time value of money; and (b) the risks specific to the asset for which the future cash flow estimates have not been adjusted. The directors concluded that there was no indication of impairment in the current year (an impairment of \$172,000 on the carrying value of the development and production assets at Satskhenisi oilfield was recognised in the prior year).

Asset Decommissioning Provisions – estimates and assumptions

The Group's activities are subject to various laws and regulations governing the protection of the environment. The Group recognises management's best estimate of the asset decommissioning costs in the period in which they are incurred. Such estimates of costs include pre-tax discount rates that reflect current market assessments of (a) the time value of money; and (b) the risks specific to the asset for which the future cash flow estimates have not been adjusted. Actual costs incurred in future periods could differ materially from the estimates.

Additionally, future changes to environmental laws and regulations, life of development and production assets, estimates and discount rates could affect the carrying amount of this provision. The Board assessed the extent of decommissioning required as at 31 December 2021 and concluded that a provision of \$2,040,000 (2020: \$1,917,000) should be recognised in respect of future decommissioning obligations at Rustaveli, West Rustavi, Satskhenisi and Norio (refer note 15).

Share Options – estimates and assumptions

Share options issued by the Group relates to the Block Energy Plc Share Option Plan. The grant date fair value of such options is calculated using a Black-Scholes model whose input assumptions are derived from market and other internal estimates.

The key estimates include volatility rates and the expected life of the options, together with the likelihood of non-market performance conditions being achieved. Refer note 23.

Accounting for business combinations and fair value – estimates and assumptions

Block Energy Plc

Notes forming part of the Consolidated Financial Statements (continued)

Business combinations are accounted for at fair value. The assessment of fair value is subjective and depends on a number of assumptions. These assumptions include assessment of discount rates, and the amount and timing of expected future cash flows from assets and liabilities. In addition, the selection of specific valuation methods for individual assets and liabilities requires judgment. The specific valuation methods applied will be driven by the nature of the asset or liability being assessed. The consideration given to a seller for the purchase of a business or a company is accounted for at its fair value. When the consideration given includes elements that are not cash, such as shares or options to acquire shares, the fair value of the consideration given is calculated by reference to the specific nature of the consideration given to the seller. See note 12.

3. Segmental disclosures

IFRS 8 requires segmental information for the Group on the basis of information reported to the chief operating decision maker for decision making purposes. The Company considers this role as being performed by the Board of Directors. The Group's operations are focused on oil and gas development and production activities (Oil Extraction segment) in Georgia and has a corporate head office in the UK (Corporate segment). Based on risks and returns the directors consider that there are two operating segments that they use to assess the Group's performance and allocate resources being the Oil Extraction in Georgia, and the Corporate segment including unallocated costs.

The segmental results are as follows:

Year ended 31 December 2021	Oil Extraction \$'000	Corporate and other \$'000	Group	Total \$'000
Revenue	6,114	-		6,114
Cost of sales	(2,982)	-		(2,982)
Depreciation and depletion	(2,896)	(5)		(2,901)
Administrative costs	(1,201)	(3,725)		(4,926)
Other income	5	-		5
Net Finance costs and Forex	(90)	(3)		(93)
Loss from operating activities	(1,050)	(3,733)		(4,783)
Total non-current assets	24,341	4		24,345

Year ended 31 December 2020	Oil Extraction \$'000	Corporate and other \$'000	Group	Total \$'000
Revenue	1,255	-		1,255
Cost of sales	(2,203)	-		(2,203)
Depreciation and depletion	(768)	(13)		(781)
Administrative costs	(807)	(3,129)		(3,936)
Other income	100	-		100
Net Finance costs and income	29	24		53
Loss from operating activities	(2,394)	(3,118)		(5,512)
Total non-current assets	21,304	7		21,311

Segmental Assets	31 December 2021 \$'000	31 December 2020 \$'000
Oil exploration – Georgia	23,745	26,483
Corporate and other	7,181	7,529
	30,926	34,012

Segmental Liabilities	31 December 2021 \$'000	31 December 2020 \$'000
Oil exploration – Georgia	3,087	3,239

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Notes forming part of the Consolidated Financial Statements (continued)

Corporate and other	774	1,079
	3,861	4,318

4. Revenue

	Year ended 31 December 2021	Year ended 31 December 2020
	\$'000	\$'000
Crude oil revenue	5,519	1,255
Gas revenue	595	-
	6,114	1,255

5. Depreciation and Depletion on Oil and Gas assets

	Year ended 31 December 2021	Year ended 31 December 2020
	\$'000	\$'000
Depreciation of PP&E	238	109
Depletion of oil and gas assets	2,663	672
	2,901	781

6. Expenses by nature

	Year ended 31 December 2021	Year ended 31 December 2020
	\$'000	\$'000
Employee benefit expense	1,720	1,559
Share option charge	1,224	460
Warrants charge	270	181
Security expense	162	-
Fees to Auditor in respect of the Group audit	93	94
Fees to Auditor in respect of the Company audit	93	94
Fees to Auditor for other non-audit services	7	39
Regulatory fees	51	38
Operating lease expense	49	57

7. Directors and employees

	Year ended 31 December 2021	Year ended 31 December 2020
	\$'000	\$'000
<u>Employment costs (inc. directors' remuneration):</u>		
Wages and salaries	1,453	2,149
Pensions	55	147
Share based payments	1,449	641
Social security costs	212	48
	3,169	2,985

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Notes forming part of the Consolidated Financial Statements (*continued*)

The share based payments comprised the fair value of options granted to directors and employees in respect of services provided.

Wages and salaries include amounts that are recharged between subsidiaries. Some of these costs are then capitalised as development and production assets and others are administration expenses.

The average monthly number of employees during 2021 was 176 (2020:102) split as follows:

	Year ended 31 December 2021	Year ended 31 December 2020
Management	18	5
Technical	135	77
Administration	23	20
	176	102

	Year ended 31 December 2021	Year ended 31 December 2020
	\$'000	\$'000
<i>Amounts attributable to the highest paid director:</i>		
Director's salary and bonus	358	350
Pension	27	25
Share based payments	183	67
	568	442

Key management and personnel are considered to be the directors.

8. Finance Income

	Year ended 31 December 2021	Year ended 31 December 2020
	\$'000	\$'000
Other finance income	-	14
	-	14

9. Other income

	Year ended 31 December 2021	Year ended 31 December 2020
	\$'000	\$'000
Sale of materials	5	100
	5	100

During the year, materials to be used in the construction of the gas pipeline from the Early Production Facility at West Rustavi were sold for \$5,000 (2020: \$100,000).

10. Taxation

Block Energy Plc

Notes forming part of the Consolidated Financial Statements (continued)

Based on the results for the year, there is no charge to UK or foreign tax. This is reconciled to the accounting loss as follows:

	Year ended 31 December 2021	Year ended 31 December 2020
UK taxation	\$'000	\$'000
UK Loss on ordinary activities	(4,783)	(5,512)
Loss before taxation at the average UK standard rate of 19% (2020: 19%)	(909)	(1,047)
Effect of:		
Zero tax rate income	(1,162)	(257)
Tax losses for which no deferred income tax asset was recognised	2,071	1,304
Current tax	-	-

The Group offsets deferred tax assets and liabilities if, and only if, it has a legally enforceable right to offset current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities related to corporation taxes levied by the same tax authority. Due to the tax rates applicable in the jurisdictions of the Group's subsidiary entities (being 0%) no deferred tax liabilities or assets are considered to arise.

For any other jurisdictions which the Group has not recognised deferred income tax assets for tax losses carried forward for entities in which it is not considered probable that there will be sufficient future taxable profits available for offset. Unrecognised deferred income tax assets related to unused tax losses. The Company has UK corporation tax losses available to carry forward against future profits of approximately \$18,591,000 (2020: \$13,808,000).

	Year ended 31 December 2021	Year ended 31 December 2020
Unrecognised gross deferred tax position	\$'000	\$'000
Tax losses brought forward	13,808	8,296
Total unrecognised gross deferred tax position at start of year	13,808	8,296
Tax losses not recognised in the year	4,783	5,512
Tax losses carried forward	18,591	13,808
Total unrecognised gross deferred tax position at end of year	18,591	13,808

	Year ended 31 December 2021	Year ended 31 December 2020
Unrecognised deferred tax asset	\$'000	\$'000
Total unrecognised deferred asset brought forward	1,304	1,206
Increase in asset	767	98
Total unrecognised deferred asset carried forward	2,071	1,304

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Notes forming part of the Consolidated Financial Statements (*continued*)

11. Loss per share

The calculation for loss per Ordinary Share (basic and diluted) is based on the consolidated loss attributable to the equity shareholders of the Company is as follows:

	Year ended 31 December 2021	Year ended 31 December 2020
Loss attributable to equity Shareholders (\$'000)	(4,783)	(5,512)
Weighted average number of Ordinary Shares	630,629,894	419,300,390
Loss per Ordinary share (\$/cents)	(0.76)c	(1.31)c

Loss and diluted loss per Ordinary Share are calculated using the weighted average number of Ordinary Shares in issue during the year. Diluted share loss per share has not been calculated as the options and warrants have no dilutive effect given the loss arising in the year.

12. Acquisition of Subsidiaries and associated PSC interests

Acquisition of Block Rustaveli Limited ("BRL") in prior year

On 23 November 2020, the Company acquired 100% of the share capital of Schlumberger Rustaveli Company Limited ("SRCL"). The completion of the acquisition means the Company now holds licences for Georgian onshore blocks IX and XI^B. The Company changed the name of the acquired company to Block Rustaveli Limited on 9 December 2020. The principal activity is oil and gas extraction and it was acquired for the purposes of expanding the Company's production and development business in Georgia.

On acquisition, the Company issued Schlumberger one US dollar and an option to acquire 120 million 0.25p Ordinary Shares in Block Energy Plc, at a nil exercise price, representing 16% of Block's enlarged ordinary share capital (at 31 December 2020). The Options are exercisable between 12 and 24 months from 23 November 2020.

The fair value of the 120 million share options issued was based on the published closing price of the Ordinary Shares in Block Energy Plc on 23 November 2020 of 4.45p per share. Following the acquisition, the finalisation of the completion statement led to a payment by Schlumberger of \$278,190 to Block Energy Plc, which has been recognised as a reduction in the fair value of the consideration paid by Block Energy Plc for this acquisition, because the payment was a contractual working capital adjustment to compensate Block Energy Plc for liabilities that were deemed to be for the seller's account.

Under IFRS 3, a business must have three elements: inputs, processes and outputs. BRL has these three elements and, therefore, this transaction has been accounted for as a business combination.

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Notes forming part of the Consolidated Financial Statements (continued)

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed of the business combination are as set out in the table below:

	Net book value of assets acquired \$'000	Fair value adjustments \$'000	Fair value of assets acquired \$'000
Development and production assets	-	6,258	6,258
Exploration and evaluation assets	6,593	(6,593)	-
PP&E	506		506
Oil inventory	867	147	1,014
Inventory and spare parts	1,535	-	1,535
Financial liabilities	(275)	-	(275)
Provision for baseline oil liability	-	(655)	(655)
Provision for decommissioning costs	(1,562)	-	(1,562)
Total identifiable assets acquired and liabilities assumed	7,664	(843)	6,821
Provisional Fair Value of Consideration Paid:			\$'000
Share options issued at nil cost			7,099
Less cash received from seller to adjust consideration			(278)
Total consideration			6,821
Provisional goodwill on acquisition			-
Analysis of cash flows on acquisition			\$'000
Payment on acquisition of subsidiary			-
Net cash acquired on acquisition			-
Net cash inflow of acquisition			-

Since the acquisition of BRL on 23 November 2020, BRL contributed \$308,000 and \$183,000 in the year ended 31 December 2020 to the Group revenue and loss respectively. If the acquisition had occurred on 1 January 2020, consolidated pro-forma revenue and loss for the year ended 31 December 2020 would have been \$483,000 and \$7,534,000 respectively.

All of the identifiable assets acquired and liabilities assumed were fair valued. PP&E and spare parts inventory were fair valued based on the items' condition and application of an industry accepted discount to the original cost. The oil inventory was fair valued by management based on the net realisable value at the acquisition date. Given the subjectivity in valuing undeveloped reserves and unevaluated acreage, a market approach was used to fair value the development and production assets, whereby the seller marketed the business for sale and the acquisition price paid was deemed to be the fair value of the sum of the identifiable assets acquired and liabilities assumed. Therefore, the fair value of the development and production assets was calculated as the difference between the acquisition price paid and the fair value of the other identifiable assets acquired and liabilities assumed.

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Notes forming part of the Consolidated Financial Statements (continued)

13. Property, Plant and Equipment

	Development & Production Assets \$'000	PPE/Computer / Office Equipment / Motor Vehicles \$'000	Total \$'000
<i>Cost</i>			
At 1 January 2020	13,204	129	13,333
Additions	2,772	210	2,982
Additions through acquisition	6,258	506	6,764
Disposals	(138)	(54)	(192)
Foreign exchange movements	-	(14)	(14)
At 31 December 2020	22,096	777	22,873
Reallocation of assets	(780)	780	-
Additions	6,182	290	6,472
Disposals	(38)	(12)	(50)
Reduction in BLO (see note 15)	(498)	-	(498)
Foreign exchange movements	-	(33)	(33)
At 31 December 2021	26,962	1,802	28,764
<i>Accumulated Depreciation</i>			
At 1 January 2020	613	7	620
Disposals	-	(11)	(11)
Charge for the year	672	109	781
Impairment charge	172	-	172
At 31 December 2020	1,457	105	1,562
Reallocation of assets	(91)	91	-
Disposals	-	(1)	(1)
Charge for the year	2,663	238	2,901
Foreign exchange movements	-	(43)	(43)
At 31 December 2021	4,029	390	4,419
<i>Carrying Amount</i>			
At 1 January 2020	12,591	122	12,713
At 31 December 2020	20,639	672	21,311
At 31 December 2021	22,933	1,412	24,345

Carrying amount of property plant and equipment by cash generative unit:

	Norio \$'000	Satsk henisi \$'000	West Rustavi \$'000	Rustaveli \$'000	Corporate \$'000	Total \$'000
<i>Carrying amount</i>						
At 31 December 2021	2,222	176	14,045	7,721	181	24,345
At 31 December 2020	2,298	230	11,767	6,866	150	21,311

At the end of the current year, the directors concluded there were no impairment indicators in the current year that warranted impairment testing to be prepared with respect to the carrying value of the assets of the Group.

Block Energy Plc

Notes forming part of the Consolidated Financial Statements (continued)

14. Inventory

	31 December 2021 \$'000	31 December 2020 \$'000
Spare parts and consumables	3,174	2,918
Crude oil	1,411	1,196
	4,585	4,114

Inventories recognised in cost of sales during the year amounted to \$(279,000), (2020: \$886,000).

15. Provisions

	31 December 2021 \$'000	31 December 2020 \$'000
Decommissioning provision	2,040	1,917
Baseline oil liability	265	745
	2,305	2,662

	31 December 2021 \$'000	31 December 2020 \$'000
Decommissioning provision		
Brought forward	1,917	276
Decommissioning provision arising from the acquisition	-	1,562
Additional decommissioning provision in the year	123	79
Carried forward	2,040	1,917

	31 December 2021 \$'000	31 December 2020 \$'000
Baseline oil liability		
Brought forward	745	-
Baseline oil liability (reducing)/arising from the acquisition	(498)	654
Additional baseline oil liability provided in the year	18	91
Carried forward	265	745

Decommissioning provisions are based on management estimates of work and the judgement of the directors. By its nature, the detailed scope of work required, and timing of such work is uncertain.

The baseline oil liability arose from the acquisition of BRL during the prior year. Under the production sharing contract for Block XI^B, BRL is obliged to deliver a certain quantity of oil to the State of Georgia in quarterly instalments by May 2022. As at 31 December 2021, BRL owed 586 tonnes of baseline oil with a present value of \$262,000 to the State of Georgia.

16. Trade and other receivables

	31 December 2021 \$'000	31 December 2020 \$'000
Other receivables	657	2,196
Prepayments	95	60
	752	2,256

In prior year, other receivables included proceeds receivable from the share issue on 30 December 2020 amounting to \$1,314,000 and \$278,000 receivable from Schlumberger following the Completion Statement and acquisition of BRL.

Block Energy Plc

Notes forming part of the Consolidated Financial Statements (continued)

17. Cash and cash equivalents

	31 December 2021 \$'000	31 December 2020 \$'000
Cash and cash equivalents	1,244	6,331

Cash and cash equivalents consist of balances in bank accounts used for normal operational activities. The vast majority of the cash was held at year end in an institution with a Fitch's credit rating of BB-.

18. Trade and Other Payables

	31 December 2021 \$'000	31 December 2020 \$'000
Trade and other payables	845	989
Accruals	711	667
	1,556	1,656

Trade and other payables principally comprise amounts outstanding for corporate services and operational expenditure.

19. Share capital

Called up, allotted, issued and fully paid	No. Ordinary Shares	No. Deferred Shares	Nominal Value \$
As at 1 January 2020	394,438,662	2,095,165,355	2,622,866
Issue of equity on 1 June 2020	1,654,824	-	5,204
Issue of equity on 10 June 2020	39,609,348	-	126,134
Issue of equity on 1 July 2020	188,435	-	588
Issue of equity on 1 August 2020	407,374	-	1,333
Issue of equity on 1 September 2020	544,400	-	1,814
Issue of equity on 1 October 2020	724,433	-	2,343
Issue of equity on 2 November 2020	450,541	-	1,456
Issue of equity on 1 December 2020	524,076	-	1,754
Issue of equity on 31 December 2020	176,000,000	-	589,017
As at 31 December 2020	614,542,093	2,095,165,355	3,352,509
Issue of equity on 4 January 2021	617,571	-	2,098
Issue of equity on 12 January 2021	397,904	-	1,362
Issue of equity on 1 February 2021	839,996	-	2,937
Issue of equity on 15 February 2021	180,715	-	632
Issue of equity on 1 March 2021	232,248	-	800
Issue of equity on 12 March 2021	865,896	-	2,983
Issue of equity on 16 March 2021	6,590,707	-	22,752
Issue of equity on 7 April 2021	58,972	-	204
Issue of equity on 5 May 2021	171,715	-	611
Issue of equity on 7 June 2021	125,696	-	434
Issue of equity on 2 July 2021	1,355,805	-	4,713
Issue of equity on 2 September 2021	62,005	-	209
Issue of equity on 15 September 2021	24,877,230	-	83,684
Issue of equity on 4 October 2021	746,668	-	2,556
Issue of equity on 8 October 2021	299,412	-	1,025
Issue of equity on 2 November 2021	262,403	-	873

Block Energy Plc

Notes forming part of the Consolidated Financial Statements (continued)

Issue of equity on 5 December 2021	522,489	-	1,766
As at 31 December 2021	652,749,525	2,095,165,355	3,482,148

On 4 January 2021, the Company issued 617,571 Ordinary Shares to a service provider in lieu of cash settlement for services provided to the Company with a total value of £20,984 (\$28,509).

On 12 January 2021, the Company issued 397,904 Ordinary Shares to a Chris Brown, Non-executive Director, on exercise of his nil cost options.

On 1 February 2021, the Company issued 839,996 Ordinary Shares to six service providers in lieu of cash settlement for services provided to the Company with a total value of £29,251 (\$40,914).

On 15 February 2021, the Company issued 180,715 Ordinary Shares to a former employee/director on exercise of their nil cost options.

On 1 March 2021, the Company issued 232,248 Ordinary Shares to four service providers in lieu of cash settlement for services provided to the Company with a total value of £7,542 (\$10,395).

On 12 March 2021, the Company issued 865,896 Ordinary Shares to Philip Dimmock, Chairman and a Contractor, on exercise of their nil cost options.

On 16 March 2021, the Company issued 4,400,000 Ordinary Shares to Paul Haywood, Executive Director, on exercise of his options, at an exercise price of 2.5 pence per share. Additionally on this date, the Company issued 2,190,707 Ordinary Shares to a service provider in lieu of cash settlement for services provided to the Company with a total value of £72,134 (\$100,000).

On 7 April 2021, the Company issued 58,972 Ordinary Shares to one service provider in lieu of cash settlement for services provided to the Company with a total value of £1,717 (\$2,372).

On 5 May 2021, the Company issued 171,715 Ordinary Shares to two service providers in lieu of cash settlement for services provided to the Company with a total value of £4,751 (\$6,765).

On 7 June 2021, the Company issued 125,696 Ordinary Shares to two service providers in lieu of cash settlement for services provided to the Company with a total value of £3,234 (\$4,468).

On 2 July 2021, the Company issued 1,355,805 Ordinary Shares to a former employee on exercise of their nil cost options at a value of \$44,269 to the Company as it met the income tax cost of this issue.

On 2 September 2021, the Company issued 62,005 Ordinary Shares to a service provider in lieu of cash settlement for services provided to the Company with a total value of £155 (\$209).

On 15 September 2021, the Company issued 24,877,230 Ordinary Shares at their nominal value to the Employee Benefit Trust.

On 4 October 2021, the Company issued 746,668 Ordinary Shares to four service providers in lieu of cash settlement for services provided to the Company with a total value of £20,148 (\$27,589).

On 8 October 2021, the Company issued 299,412 Ordinary Shares to a former Director, on exercise of their nil cost options.

On 2 November 2021, the Company issued 262,403 Ordinary Shares to two service providers in lieu of cash settlement for services provided to the Company with a total value of £5,533 (\$7,367).

On 5 December 2021, the Company issued 522,489 Ordinary Shares to two service providers in lieu of cash settlement for services provided to the Company with a total value of £8,033 (\$10,863).

On 2 June 2020, the Company issued 1,654,824 Ordinary Shares, details of which are set out below:

150,731 Ordinary Shares have been allotted to Philip Dimmock, Chairman, at an average price of 3.98p in settlement of fees amounting to £6,000 due to him and 100,486 Ordinary Shares have been allotted to Chris Brown, Non-Executive Director, at an average price of 3.98p in settlement of fees of £4,000 due to him.

1,124,058 Ordinary Shares have been allotted to two consultants to the Company as settlement for services provided on the Georgian operations during the period from February 2019 to March 2020 with a total value of £57,229.

Block Energy Plc

Notes forming part of the Consolidated Financial Statements (*continued*)

75,000 Ordinary Shares have been allotted to Timothy Parson, former Non-Executive Director of the Company, as settlement for services provided on the Georgian operations during 2017 with a total value of £3,000.

204,549 Ordinary Shares have been allotted to an adviser to the Company in lieu of cash settlement for services provided to the Company during the two months period from 1 April 2020 to 31 May 2020 with a total value of £3,433.

On 10 June 2020, the Company issued 39,609,348 new Ordinary Shares at their nominal value to the EBT.

On 1 July 2020, the Company issued 188,435 Ordinary Shares to two service providers in lieu of cash settlement for services provided to the Company with a total value £4,417 (\$5,513).

On 3 August 2020, the Company issued 407,374 Ordinary Shares of 0.25p each to three service providers in lieu of cash settlement for services provided to the Company with a total value of £10,000 (\$13,088).

On 2 September 2020, the Company issued 544,400 Ordinary Shares 0.25p each to three service providers in lieu of cash settlement for services provided to the Company with a total value of £13,184 (\$17,574).

On 2 October 2020, the Company issued 724,433 Ordinary Shares 0.25p each to four service providers in lieu of cash settlement for services provided to the Company with a total value of £19,212 (\$24,853).

On 2 November 2020, the Company issued 450,451 Ordinary Shares 0.25p each to four service providers in lieu of cash settlement for services provided to the Company with a total value of £11,268 (\$14,565).

On 2 December 2020, the Company issued 524,076 Ordinary Shares 0.25p each to seven service providers in lieu of cash settlement for services provided to the Company with a total value of £15,819 (\$21,177).

On 30 December 2020, the Company raised gross proceeds of £5,280,000 (\$7,068,287) through the placing of 176,000,000 Ordinary Shares at 3p per share.

The Ordinary Shares consist of full voting, dividend and capital distribution rights and they do not confer any rights for redemption. The Deferred Shares have no entitlement to receive dividends or to participate in any way in the income or profits of the Company, nor is there entitlement to receive notice of, speak at, or vote at any general meeting or annual general meeting.

20. Share premium account

	\$'000
Balance at 1 January 2021	34,234
Premium arising on issue of equity shares	391
Share issue costs	-
Balance at 31 December 2021	34,625
	\$'000
Balance at 1 January 2020	27,985
Premium arising on issue of equity shares	6,654
Share issue costs	(405)
Balance at 31 December 2020	34,234

21. Reserves

The following describes the nature and purpose of each reserve within owners' equity.

Reserves	Description and purpose
Share Capital	Amount subscribed for share capital at nominal value.
Share premium account	Amount subscribed for share capital in excess of nominal value, less attributable costs.
Other reserves	The other reserves comprises the fair value of all share options and warrants which have been charged over the vesting period, net of the amount relating to share options which have expired, been cancelled and have vested. It also comprises of the fair value of the share options issued as part of the consideration paid for the

Block Energy Plc

Notes forming part of the Consolidated Financial Statements (continued)

acquisition of the subsidiary BRL and the movement has been shown in the Consolidated Statement of the Changes in Equity.

Foreign exchange reserve	Exchange differences on translating the net assets of foreign operations
Accumulated deficit	Cumulative net gains and losses recognised in the income statement and in respect of foreign exchange.

22. Warrants

	Number of Warrants	31 December 2021 weighted average exercise price	Number of Warrants	31 December 2020 weighted average exercise price
Outstanding at the beginning of the year	16,820,502	6p	8,070,335	10p
Additions	-	-	8,750,167	3p
Outstanding at the end of the year	16,820,502	6p	16,820,502	6p

As at 31 December 2021, all warrants were available to exercise and were exercisable at prices between 3p and 12.5p (31 December 2020: 3p and 12.5p). The weighted average life of the warrants is 2.65 years (31 December 2020: 3.6 years). No new warrants were issued and no existing warrants were exercised or lapsed during the year. The additions during the prior year represent warrants issued with 5 year terms. The fair value of additions during the year was \$nil (2020: \$376,000).

23. Share based payments

During the year, the Group operated a Block Energy Plc Share Option Plan (Share Option Scheme).

Under IFRS 2, an expense is recognised in the statement of comprehensive income for share based payments, to recognise their fair value at the date of grant. The application of IFRS 2 gave rise to a charge of \$1,494,000 for the year ended 31 December 2021. The equivalent charge for the year ended 31 December 2020 was \$641,000. The Group recognised total expenses (all of which related to equity settled share-based payment transactions) under the current plans of:

	2021 \$'000	2020 \$'000
Share option scheme	1,224	460
Warrants charge	270	181
	1,494	641

Share Option Scheme

The vesting period varies between 0 days to 3 years. The options expire if they remain unexercised after the exercise period has lapsed and have been valued using the Black Scholes model.

The following table sets out details of all outstanding options granted under the Share Option Scheme.

	2021 Options	2021 Weighted average exercise price	2020 Options	2020 Weighted average exercise price
Outstanding at beginning of year	31,338,713	\$0.05	27,437,856	\$0.07
Granted during the year	44,136,726	\$0.02	9,230,112	\$0.00
Exercised during the year	(25,211,024)	\$0.01	(1,997,622)	\$0.03

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Notes forming part of the Consolidated Financial Statements (*continued*)

Expired during the year	(3,198,464)	\$0.04	(3,331,633)	\$0.06
Outstanding at the end of the year	47,065,951	\$0.05	31,338,713	\$0.05
Exercisable at the end of the year	29,161,323	\$0.03	30,040,857	\$0.01

The weighted average exercise price of the share options exercisable at 31 December 2021 is \$0.03 (31 December 2020: \$0.01). The weighted average contractual life of the share based payments outstanding at 31 December 2021 is 9.8 years (31 December 2020: 3.6 years).

The estimated fair values of options which fall under IFRS 2, and the inputs used in the Black-Scholes model to calculate those fair values are as follows:

Date of grant	Number of options	Estimated fair value	Share price	Exercise price	Expected volatility	Expected life	Risk free rate	Expected dividends
30 June 2017	1,200,000	\$0.04	\$0.01	\$0.03	84%	5.5 years	1.16%	0%
6 April 2018	4,400,000	\$0.05	\$0.04	\$0.03	84%	10 years	1.34%	0%
11 June 2018	18,098,332	\$0.04	\$0.05	\$0.05	84%	10 years	1.23%	0%
21 October 2019	6,325,000	\$0.05	\$0.06	\$0.15	109%	9.0 years	0.63%	0%
1 March 2021	10,800,00	\$0.04	\$0.04	\$0.06	192%	9.5 years	0%	0%
	Warrants							
31 December 2020	8,750,167	\$0.04	\$0.04	\$0.04	190%	5 years	0%	0%

All share based payment charges are calculated using the fair value of options.

For the options granted prior to 30 June 2018, expected volatility was determined by reviewing benchmark values from comparator companies. For the options granted after 30 June 2018, expected volatility was determined by reference to the volatility of historic trading prices of the Company's shares.

24. Financial instruments

Capital Risk Management

The Company manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders. The overall strategy of the Company and the Group is to minimise costs and liquidity risk.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued share capital, foreign exchange and other reserves and retained earnings as disclosed in the Consolidated Statement of Changes of Equity.

The Group is exposed to a number of risks through its normal operations, the most significant of which are interest, credit, foreign exchange and liquidity risks. The management of these risks is vested to the Board of Directors.

The sensitivity has been prepared assuming the liability outstanding was outstanding for the whole period. In all cases presented, a negative number in profit and loss represents an increase in finance expense / decrease in interest income.

Fair Value Measurements Recognised in the Statement of Financial Position

The following provides an analysis of the Group's financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 & 2 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 2 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).
- Level 3 assets are assets whose fair value cannot be determined by using observable inputs or measures, such as market prices or models. Level 3 assets are typically very illiquid, and fair values can only be calculated using estimates or risk-adjusted value ranges.

Block Energy Plc

Notes forming part of the Consolidated Financial Statements (*continued*)

Credit risk

Credit risk is the risk that the Group will suffer a financial loss as a result of another party failing to discharge an obligation and arises from cash and other liquid investments deposited with banks and financial institutions and receivables from the sale of crude oil.

For deposits lodged at banks and financial institutions these are all held through a recognised financial institution. The maximum exposure to credit risk is \$1,244,000 (2020: \$6,331,000). The Group does not hold any collateral as security.

The carrying value of cash and cash equivalents and financial assets represents the Group's maximum exposure to credit risk at year end. The Group has no material financial assets that are past due.

The Company has made unsecured interest-free loans to its subsidiary companies. Although the loans are repayable on demand, they are unlikely to be repaid until the projects become successful and the subsidiaries start to generate revenues. An assessment of the expected credit loss arising on intercompany loans is detailed in note 6 to the parent Company financial statements.

Market risk

Market risk arises from the Group's use of interest bearing and foreign currency financial instruments. It is the risk that future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), and foreign exchange rates (currency risk).

There are no variable interest bearing loans in the Group. No risk therefore identified.

Currency risk

Foreign currency risk can only arise on financial instruments that are denominated in a currency other than the functional currency in which they are measured. Translation-related risks are therefore not included in the assessment of the entity's exposure to currency risks. Translation exposures arise from financial and non-financial items held by an entity (for example, a subsidiary) with a functional currency different from the group's presentation currency. However, foreign currency-denominated inter-company receivables and payables which do not form part of a net investment in a foreign operation would be included in the sensitivity analysis for foreign currency risks; this is because, even though the balances eliminate in the consolidated balance sheet, the effect on profit or loss of their revaluation under IAS 21 is not fully eliminated.

A 10% increase in the strength of the pound sterling against the US dollar would cause an estimated increase of \$480,000 (2020: \$629,000 increase) in the loss after tax of the Group for the year ended 31 December 2021, with a 10% weakening causing an equal and opposite decrease. The impact on equity is the same as the impact on loss after tax.

The Group's cash and cash equivalents and liquid investments are mainly held in US dollars, pounds sterling and Georgian Lari. At 31 December 2021, 3% of the Group's cash and cash equivalents and liquid investments were held in pounds sterling, 88% in Georgian Lari and the remainder in US dollars, Euros and Canadian dollars (31 December 2020: 90% in pounds sterling).

Liquidity risk

Liquidity risk arises from the possibility that the Group and its subsidiaries might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. In addition to equity funding, additional borrowings have been secured in the past to finance operations. The Company manages this risk by monitoring its financial resources and carefully plans its expenditure programmes. Financial liabilities of the Group comprise trade payables which mature in less than twelve months.

Block Energy Plc

Notes forming part of the Consolidated Financial Statements (*continued*)

25. Categories of financial instruments

In terms of financial instruments, these solely comprise of those measured at amortised cost and are as follows:

	31 December 2021 \$'000	31 December 2020 \$'000
Liabilities at amortised cost	1,556	1,656
	1,556	1,656
Cash and cash equivalents at amortised cost	1,244	6,331
Financial assets at amortised cost	657	2,196
	1,901	8,527

No collateral has been pledged in relation thereto.

26. Subsidiaries

At 31 December 2021, the Group consists of the following subsidiaries, which are wholly owned by the Company.

Company	Country of Incorporation	Proportion of voting rights and equity interest 2021	Proportion of voting rights and equity interest 2020
Block Norioskhevi Ltd	British Virgin Islands	100%	100%
Satskhenisi Ltd	Marshall Islands	100%	100%
Georgia New Ventures Inc.	Bahamas	100%	100%
Block Operating Company LLC	Georgia	100%	100%
Block Rustaveli Limited	British Virgin Islands	100%	100%

Subsidiaries - Nature of business

The principal activity of Georgia New Ventures Inc, Satskhenisi Ltd, Block Norioskhevi Ltd and Block Rustaveli Limited is oil and gas development and production.

The principal activity of Block Operating Company LLC is to be the operator of the oil and gas licenses held in Georgia.

Registered Office

The registered office of Georgia New Ventures Inc. is Bolam House, King and George Streets, P.O. Box CB 11.343, Nassau, Bahamas.

The registered office of Satskhenisi Ltd is Trust Company Complex, Ajeltake road, Ajeltake Island, Majuro, Marshall Islands MH96960.

The registered office of Block Norioskhevi Ltd is Trident Chambers, P.O.Box 146, Road Town, Tortola, British Virgin Islands.

The registered office of Block Operating Company LLC is 13A Tamarashvili Street, Tbilisi 0162, Georgia.

The registered office of Block Rustaveli Limited is Craigmuir Chambers, Road Town, Tortola, VG1110, British Virgin Islands.

Block Energy Plc

Notes forming part of the Consolidated Financial Statements (*continued*)

27. Commitments

Commitments at the reporting date that have not been provided for were as follows:

Operating lease commitment

UK operating lease commitment

At 31 December 2021 and 31 December 2020, the total of future minimum lease payments under non-cancellable operating leases for each of the following periods was:

	31 December 2021 \$'000	31 December 2020 \$'000
Within 1 year	-	-
Between 1 and 5 years	-	-
Total	-	-

28. Related party transactions

Key management personnel comprises of the directors and details of their remuneration are set out in Note 7 and the Remuneration Report.

In the prior year, on 1 June 2020, 75,000 Ordinary Shares were issued to Timothy Parson, former Non-Executive Director of the Company, as settlement for services provided on the Georgian operations during 2017 with a total value of £3,000 (\$4,000).

29. Events occurring after year end

There were no material events occurring after the year end.

Block Energy Plc

Parent Company Statement of Financial Position At 31 December 2021

Company number: 05356303

	Note	2021 \$'000	2020 \$'000
Non- current assets			
Investments	4	6,939	7,027
Property, plant and equipment	5	4	8
		<u>6,943</u>	<u>7,035</u>
Current assets			
Trade and other receivables	6	25,628	22,816
Cash and cash equivalents	7	133	5,657
Total current assets		<u>25,761</u>	<u>28,473</u>
Total assets		<u>32,704</u>	<u>35,508</u>
Capital and reserves attributable to equity shareholders			
Share capital	9	3,482	3,336
Share premium		34,625	34,234
Other reserves		10,260	9,121
Foreign exchange reserve		366	449
Accumulated deficit		(16,803)	(12,711)
Total equity		<u>31,930</u>	<u>34,429</u>
Current liabilities			
Trade and other payables	10	774	1,079
Total current liabilities		<u>774</u>	<u>1,079</u>
Total equity and liabilities		<u>32,704</u>	<u>35,508</u>

The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 by choosing not to present its individual Statement of Comprehensive Income and related notes that form part of these approved financial statements.

The Company's loss for the year from continuing and discontinued operations is \$4,384,000 (2020: loss of \$3,091,000).

The financial statements were approved by the Board of Directors and authorised for issue on 30 June 2022 and were signed on its behalf by:



William McAvoek
Director



Paul Haywood
Director

The notes on pages 79 to 84 form part of these financial statements.

Block Energy Plc

Parent Company Statement of Changes in Equity At 31 December 2021

	Share capital \$'000	Share premium \$'000	Accumulated deficit \$'000	Other reserve \$'000	Foreign currency reserve \$'000	Total equity \$'000
Balance at 31 December 2019	2,606	27,985	(9,620)	1,115	400	22,486
<i>Comprehensive income</i>						
Loss for the year	-	-	(3,091)	-	-	(3,091)
Exchange differences on translation of foreign operations	-	-	-	-	49	49
<i>Total comprehensive income for the year</i>	-	-	(3,091)	-	49	(3,042)
<i>Transactions with owners recognised directly in equity</i>						
Shares issued	730	6,654	-	-	-	7,384
Cost of issue	-	(405)	-	-	-	(405)
Share based payments	-	-	-	8,006	-	8,006
<i>Total transactions with owners</i>	<i>730</i>	<i>6,249</i>	<i>-</i>	<i>8,006</i>	<i>-</i>	<i>14,985</i>
Balance at 31 December 2020	3,336	34,234	(12,711)	9,121	449	34,429
<i>Comprehensive income</i>						
Loss for the year	-	-	(4,384)	-	-	(4,384)
Exchange differences on translation of foreign operations	-	-	-	-	(66)	(66)
<i>Total comprehensive income for the year</i>	-	-	(4,384)	-	(66)	(4,450)
<i>Transactions with owners recognised directly in equity</i>						
Shares issued	52	255	-	-	-	307
Foreign exchange rate correction	17	-	-	(1)	(17)	(1)
Share based payments	-	-	-	1,494	-	1,494
Options exercised	77	136	210	(272)	-	151
Options expired	-	-	82	(82)	-	-
<i>Total transactions with owners</i>	<i>146</i>	<i>391</i>	<i>292</i>	<i>1,139</i>	<i>(17)</i>	<i>1,951</i>
Balance at 31 December 2021	3,482	34,625	(16,803)	10,260	366	31,930

Block Energy Plc

Parent Company Statement of Cashflows for the year ended 31 December 2021

	Note	2021 \$'000	2020 \$'000
Cash flow from operating activities			
Loss for the year before income tax		(4,384)	(3,091)
<i>Adjustments for:</i>			
Depreciation		5	5
Intercompany interest/ Finance income		(2,558)	(15)
Increase in ECL Provisions for loans		3,205	-
Share based payments expense		1,449	725
Foreign exchange movement		4	29
Operating cash flows before movements in working capital		(2,279)	(2,347)
Increase in trade and other receivables	6	(9)	(14)
(Decrease)/increase in trade and other payables	10	(26)	922
Net cash used in operating activities		(2,314)	(1,439)
Cash flow from investing activities			
Cash from acquisition of BRL		278	-
Finance income		-	15
Expenditure in respect of property, plant and equipment		(1)	(1)
Inter-Group amounts (drawn down)		(4,920)	(4,136)
Net cash used in investing activities		(4,643)	(4,122)
Cash flow from financing activities			
Proceeds from issue of ordinary share capital		1,465	5,737
Costs related to issue of ordinary share capital		-	(405)
Net cash inflow from financing activities		1,465	5,332
Net decrease in cash and cash equivalents in the year		(5,492)	(229)
Cash and cash equivalents at start of year		5,657	5,865
Effects of foreign exchange		(32)	21
Cash and cash equivalents at end of year	7	133	5,657

Significant non-cash transactions

Please refer to note 8 in the Parent company notes for non-cash transactions.

Block Energy Plc

Notes forming part of the Parent Company Financial Statements

1. Accounting policies

Basis of preparation

These financial statements have been prepared on a historical cost basis and in line with UK international accounting standards and in conformity with the Companies Act 2006. All accounting policies are consistent with those adopted by the Group. These accounting policies are detailed in the notes to the consolidated financial statements, note 1. Any deviations from these Group policies by the Company are detailed below.

Going concern

The directors have prepared cash flow forecasts for a period of 18 months from the date of signing these financial statements. The Group's forecasts are reviewed regularly to assess whether any actions to curtail expenditure or cut costs are required. The Group is in the final stages of preparing to drill a horizontal sidetrack in the WR-B1 well followed by sidetracks of other wells. The forecasts assume the wells will produce oil and gas, which would be sold, and indicate the Group has sufficient funds to complete the drilling of the wells and to meet its liabilities as they fall due until December 2023. However, if any of the new wells do not produce commercial quantities of oil or gas, the Group would immediately revisit its plans to drill subsequent wells. The financial benefit of any additional capital projects would be assessed against capital requirements and balanced with ensuring that the Group and the Company can continue to meet their liabilities and commitments through to December 2023. The Company's forecasts are considered together with the Group's forecasts.

The Group's operations presently generate sufficient revenues to cover operating costs and capital expenditures, supporting the continued preparation of the Group's accounts on a going concern basis. The directors are nevertheless conscious that oil prices have risen rapidly during the past twelve months due in part to recent global political uncertainty, and could rise further but could also fall back in the year ahead, and that future production levels depend in part on the success of future drilling. As part of their going concern assessment, the directors have performed a reverse stress test on a low oil price scenario in which future drilling is inhibited or unsuccessful, and have concluded that it remains possible that future revenues in such a scenario might not cover all operating costs and planned capital expenditures, creating a material uncertainty that may cast doubt over the Group's ability to continue as a going concern. Whilst acknowledging this material uncertainty, the directors remain confident of making further cost savings and/or raising finance when required and therefore the directors consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

Investments in subsidiaries

Investments in subsidiaries are recorded at cost. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount. Where these circumstances have reversed, the impairment previously made is reversed to the extent of the original cost of the investment.

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Notes to Parent Company Financial Statements For the year ended 31 December 2021

2. Employees

	Year ended 31 December 2021 \$'000	Year ended 31 December 2020 \$'000
Employment costs consist of:		
Wages and salaries	651	1,022
Pension	55	147
Share based payments	1,449	641
Social security costs	210	48
	2,365	1,858

The average monthly number of employees during the year was 13 (2020: 9) split as follows:

	Year ended 31 December 2021 \$'000	Year ended 31 December 2020 \$'000
Management	5	5
Technical	6	3
Administration	2	1
	13	9

3. Directors' Emoluments

Directors' Emoluments are disclosed in the Remuneration Report of the consolidated financial statements.

4. Investments

	2021 \$'000	2020 \$'000
Shares in Group undertakings		
Balance at 1 January	7,027	1
Additions in year – acquisition of BRL	-	6,821
FX movement on translation of assets	(88)	205
Balance at 31 December	6,939	7,027

Investments in subsidiaries are recorded at cost, which is the fair value of the consideration paid. On 23 November 2020, the Company acquired 100% of the issued share capital of Block Rustaveli Limited for a total consideration of \$6,821,000. For a breakdown of consideration, including details of the fair value of the identifiable assets acquired and liabilities assumed, please refer to note 12 to the consolidated financial statements.

At 31 December 2021, the carrying amount of the Company's net assets of \$31,930,000 exceeded the Group's net assets of \$27,065,000. This is identified by IAS 36 Impairment of Assets as an indicator that assets may be impaired. Following a review of the assets held by the Company, the directors do not believe an impairment is necessary at this time, but will keep this under review.

Block Energy Plc

Notes forming part of the Parent Company Financial Statements

5. Property, plant and equipment

	Computer Equipment \$'000	Office Equipment \$'000	Total \$'000
<i>Cost</i>			
At 1 January 2021	15	1	16
Additions	1	-	1
At 31 December 2021	16	1	17
<i>Depreciation</i>			
At 1 January 2021	(8)	-	(8)
Depreciation charge	(5)	-	(5)
At 31 December 2021	(13)	-	(13)
<i>Carrying amount</i>			
At 1 January 2021	7	1	8
At 31 December 2021	3	1	4

6. Trade and other receivables

	2021 \$'000	2020 \$'000
Prepayments	27	47
Other receivables	383	1,862
Amounts due from Group undertakings	25,218	20,907
	25,628	22,816

All of the above amounts are due within one year.

Other receivables in prior year included an amount of \$278,190 which was due from Schlumberger following the Completion Statement for the acquisition of the subsidiary BRL. This was received in March 2021.

All trade and other receivables are denominated in pounds sterling. Amounts due from Group undertakings are denominated in US dollars and repayable on demand. The Company charges 5% interest per annum on intercompany loans.

Under IFRS 9, the Expected Credit Loss ("ECL") Model is required to be applied to the intercompany loans receivable from subsidiary companies, which are held at amortised cost. An assessment of the expected credit loss arising on intercompany loans has been calculated and a loss allowance of \$3,710,000 has been provided for in the parent Company financial statements (\$3,206,000 in 2021 and \$504,000 in 2019).

7. Cash at bank

	2021 \$'000	2020 \$'000
Cash and cash equivalents	133	5,657

Cash and cash equivalents consist of balances in bank accounts used for normal operational activities. The bank account is held within an institution with a credit rating of A-1.

At 31 December 2021, 76% of the cash balances held by the Company were held in US Dollars and the remained in UK sterling.

Block Energy Plc

Notes to Parent Company Financial Statements For the year ended 31 December 2021

8. Non – cash transactions

Details of non-cash transactions can be found in notes 19 and 23 to the consolidated financial statements.

9. Share capital

Details of share capital and movements in the year are set out in note 19 to the consolidated financial statements.

10. Trade and other payables

	2021 \$'000	2020 \$'000
Trade and other payables	296	413
Accruals	478	666
	774	1,079

Trade and other payables at 31 December 2021 comprised balances in US dollars and pounds sterling.

11. Categories of financial instruments

In terms of financial instruments, these solely comprise of those measured at amortised cost and are as follows:

	31 December 2021 \$'000	31 December 2020 \$'000
Trade and other payables	774	1,079
Total financial liabilities at amortised cost	774	1,079

The carrying amounts of trade and other payables are considered to be the same as their fair values due to their short-term nature.

	31 December 2021 \$'000	31 December 2020 \$'000
Other receivables	383	1,862
Amounts due from Group undertakings	25,218	20,907
Cash and cash equivalents at amortised cost	133	5,657
Total financial assets at amortised cost	25,734	28,426

The amounts due from Group undertakings includes a loss allowance of \$3,710,000 (2020: \$504,000). The loans are repayable on demand and include a 5% per annum interest rate charge. They are all denominated in US dollars, which differs from the parent Company's functional currency of pounds sterling, and therefore there is an exposure to foreign currency risk. There is no exposure to price risk as the underlying investments are expected to be held to maturity.

Block Energy Plc

Notes forming part of the Parent Company Financial Statements

12. Financial and Capital Risk Management

The Company's exposure to financial risks is managed as part of the Group. Full details about the Group's exposure to financial risks and how these risks could affect the Group's future financial performance are given in note 24 to the consolidated financial statements. Information specific to the Company is given below.

Credit risk

For deposits lodged at banks and financial institutions these are all held through a recognised financial institution. The maximum exposure to credit risk is \$133,000 (2020: \$5,657,000). The Company does not hold any collateral as security.

The Company has made unsecured interest payable loans to its subsidiary companies and repayments have commenced during the year. Although the loans are repayable on demand, they are unlikely to be fully repaid until the projects become more developed and the subsidiaries start to generate increased revenues. An assessment of the expected credit loss arising on intercompany loans has been calculated and a loss allowance of \$3,710,000 has been provided for in the parent Company financial statements.

Currency risk

Foreign currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company undertakes transactions denominated in currencies other than its functional currency (which is the pound sterling). For transactions denominated in US dollars, the Company manages this risk by holding US dollar against actual or expected US dollar commitments to act as an economic hedge against exchange rate movements.

The Company's cash and cash equivalents and liquid investments are mainly held in pounds sterling and US dollars. At 31 December 2021, 24% of the Group's cash and cash equivalents and liquid investments were held in pounds sterling. A 10% movement in the strength of the pound sterling against the US dollar would increase the net assets of the Company by \$3,500.

The exposure to other foreign currency exchange movements is not material. This sensitivity analysis includes foreign currency denominated monetary items and assumes all other variables remain unchanged. Whilst the effect of any movement in exchange rates upon revaluing foreign currency denominated monetary items is charged or credited to the income statement, the economic effect of holding pounds sterling against actual or expected commitments in pounds sterling is an economic hedge against exchange rate movements.

Capital management

The capital of the Company is managed as part of the capital of the Group as a whole. Full details, are contained in note 24 to the consolidated financial statements.

13. Commitments

Commitments at the reporting date that have not been provided for were as follows:

UK operating lease commitment

At 31 December, the total of future minimum lease payments under non-cancellable operating leases for each of the following periods was:

	2021 \$'000	2020 \$'000
Within 1 year	-	-
Between 1 and 5 years	-	-
Total	-	-

Block Energy Plc

Notes to Parent Company Financial Statements For the year ended 31 December 2021

14. Related party transactions

At 31 December 2021, the following subsidiaries owed the parent Company for payments made and recovered on their behalf.

- Block Norioskhevi Ltd – \$3,815,000 (31 December 2020: \$3,703,000)
- Georgia New Ventures Inc – \$18,212,000 (31 December 2020: \$15,115,000)
- Satskhenisi Ltd – \$310,000 (31 December 2020: \$668,000)
- Block Operating Company LLC – \$1,819,000 (31 December 2020: \$1,142,000)
- Block Rustaveli Limited - \$1,063,000 (31 December 2020: \$261,000)

A total loss allowance of \$3,710,000 (2020: \$504,000) was recognised in relation to the loans to Satskhenisi Ltd and Georgia New Ventures Inc. Further detail on related party transactions can be found in note 28 to the consolidated financial statements. The disclosure of fees paid to consultancy companies for key management services can be seen in the Remuneration Report.

15. Information included in the notes to the consolidated financial statements

Some of the information included in the notes to the consolidated financial statements is directly relevant to the financial statements of the Company. Please refer to the following:

Note 6 – Auditors' remuneration

Note 23 – Share-based payments

Note 26 – Subsidiaries

Note 29 – Events occurring after the year end