

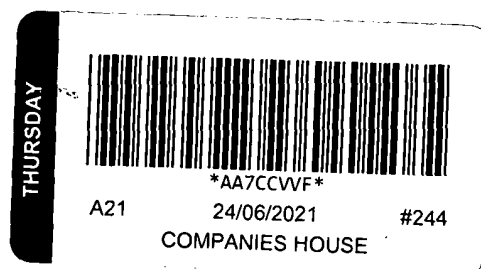
Company Number: 05356303

Block Energy Plc

Annual Report and Financial Statements

Year Ended

31 December 2020



Block Energy Plc

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Strategic Report

Officers and Advisers

Directors

Paul Haywood	Chief Executive Officer
William McAvoek	Chief Financial Officer
Philip Dimmock	Independent Non-Executive Chairman
Christopher Brown	Director - Non-Executive
Charles Valceschini	Director - Non-Executive (appointed 15 December 2020)
David Sandroshvili	Director - Non-Executive (appointed 21 December 2020)

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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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Auditor BDO LLP 55 Baker Street London W1U 7EU	Public Relations Camarco 107 Cheapside London EC2V 6DN

Block Energy Plc

Strategic Report

Highlights

Equity placing

- In December 2020, Block Energy Plc completed a placing of 176 million new Ordinary Shares, raising approximately £5.28 million, equivalent to \$7.2 million (before expenses) with institutional investors at a placing price of 3 pence, equivalent to \$0.04, per share.

Acquisition and business growth

- On 25 March 2020, the Company entered into a conditional sale and purchase agreement with Schlumberger B.V. ("Schlumberger") to acquire its subsidiary Schlumberger Rustaveli Company Limited ("SRCL"). The acquisition was completed on 23 November 2020. The acquired company holds the PSCs to Blocks IX and XI^B in Georgia.
- Cash at 31 December 2020 was \$6,331,000 (31 December 2019: \$6,494,000).

Operations

- Production of oil and gas from the two horizontal wells (WR-16aZ and WR-38Z) in its West Rustavi licence area was suspended in April 2020 to avoid selling oil at low oil prices and conserve gas resources until the Early Production Facility ("EPF") and gas sales pipeline were completed.
- Gas sales agreement signed with Bago LLC, a prominent private gas supplier and purchaser in Georgia, for the offtake of gas produced at the Company's flagship West Rustavi field.
- Construction of an EPF, with capacity for up to six wells, to exploit Block Energy's associated gas and contingent gas resources, was completed on budget in November 2020.
- Following the year end, on 15 February 2021, the Company achieved its first gas sales.
- 100 km² of 3D seismic survey data acquired over and beyond the entire area of the Company's West Rustavi licence was processed and interpreted, with results exhibiting good subsurface imaging of the main producing and prospective formations in the licence, thereby informing the drilling programme.
- The Group continued to produce approximately 20 bopd from the Norio and Satskhenisi fields.
- The Group maintains a strong focus on assuring Health, Safety and Environmental ("HSE") management.
- Following the year end, in March 2021, the Group entered into an agreement with Georgia Oil & Gas Limited to hire drilling and workover rigs and equipment.

Block Energy Plc

Strategic Report

Strategy and Business Model

The Company's strategy is focused on becoming the leading independent oil and gas company in Georgia. It plans to develop and exploit its portfolio of low cost, high impact development assets in a proven region of Georgia and scale up its 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 exciting licences 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 unrisks 2C contingent resources of oil and 608 BCF of gross unrisks 2C contingent resources of gas¹ and recently acquired 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 unrisks 2C contingent resources of gas².

The programme's core elements are to exploit existing fields, converting resources to reserves and reserves to production, and this has been boosted by the acquisition of additional licences, containing high-potential and mature fields. The newly acquired Blocks IX and XI^B are also thought to contain significant high impact exploration potential that will be evaluated in due course. The company is also reviewing the geothermal potential on its licences.

Despite the challenges of Covid-19 and low oil prices, Block has made good progress over the year ended 31 December 2020:

- Acquired 100% of the shares of Schlumberger Rustaveli Company Limited ("SRCL"), which holds two PSCs associated with Blocks IX and XI^B in Georgia and successfully integrated SRCL into the Group.
- Processed and interpreted 3D seismic survey data to evaluate and rank development and appraisal well targets in West Rustavi.
- Sold crude oil at higher oil prices towards the end of 2020.
- Continued to build its management and technical teams in Georgia and London.
- Strengthened its board of directors with the appointment of two new non-executive directors in December 2020.
- Entered into a gas sales agreement with one of Georgia's most prominent private gas suppliers.
- Constructed and commissioned an EPF and commenced gas sales soon after the year end, in February 2021.

The current contract with Bago LLC for gas sales covers small volumes of associated gas produced with oil from the Middle Eocene reservoir in West Rustavi. The gas is priced on a spot basis with the latest gas sales tender price achieved by the state-owned Georgian Oil & Gas Corporation ("GOGC") being used as the benchmark for the spot price.

As well as holding associated gas reserves and resources 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 have been proven and developed, the natural gas would be sold on a long-term basis, either to GOGC or directly to industrial purchasers, reflecting the prices being paid by GOGC for gas imported from Azerbaijan.

The Company continues to assess the opportunity to increase the rate of development of its reserves and resources. The finance required for development might be obtained by increasing equity and/or taking debt from the bond or other markets.

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

The Company may in the future 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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Strategic Report

Chairman's Statement

Despite the Covid-19 pandemic taking control of much of last year, I am pleased to report that Block Energy has continued to perform well and has made significant progress both operationally and corporately. I am very grateful to the Board and all employees for working relentlessly throughout 2020, diligently observing national restrictions and for their continued dedication to your Company.

2020 began with a strong start, with production tests at our WR-38Z well confirming West Rustavi's associated gas potential, to which Block responded swiftly by commencing the installation of an EPF to the field. Despite various Covid-19 lockdowns and restrictions in both the UK and Georgia, we continued to pursue our gas strategy with Bago LLC and were delighted to announce our inaugural gas sales in February 2021 - a great achievement, as Block managed to deliver its gas project safely, with zero LTIs, in the face of a very challenging global environment. As I have mentioned before, Block is committed to maintaining high environmental standards and to providing Georgia with an alternative clean and efficient fuel source in place of its current petroleum and diesel consumption.

In line with Block's objective to become the leading independent oil and gas producer in Georgia, the Company announced and completed the transaction to acquire two blocks, Block IX and Block XI^B, from Schlumberger during the year. The acquisition significantly increased Block's access to production, reserves and resources and has provided multiple opportunities for future development and production. Following the acquisition, we welcomed the majority of the existing workforce and have now combined offices in Georgia, so the entire team is located at our Lilo base on Block XI^B. The co-location of staff facilitates a more collaborative and productive working environment and is more cost-effective for the Company. Throughout the pandemic, all staff have meticulously observed the rules and regulations required by both the UK and Georgian governments.

In response to the Covid-19 pandemic and to low oil prices, Block moved swiftly to ensure the business could continue to run safely and sustainably. We decided to postpone capital expenditure and reduce our cash expenditure by 40% through a combination of cost-cutting measures, deferral of operating and administrative expenses and, in the UK, directors and employees agreed a scheme in which, from 1 April 2020, 40% of their salaries have been paid in nil-cost options to acquire ordinary shares in the Company, reducing monthly cash salary costs significantly. I believe it was these pragmatic decisions, along with the commitment of our staff, that has enabled Block to withstand the challenges of the past year. To help to implement our 2021 development strategy, the Company performed a fundraise of £5.28 million in December 2020, the proceeds of which will support Block's statement of financial position through its recently announced operational objectives.

Despite a year of turmoil, we remained focused on improving our corporate governance and welcomed Chuck Valceschini and Dato Sandroshvili as non-executive directors to the Board. Each has dedicated his career to the oil and gas industry and has brought a wealth of experience that has already proven invaluable to the Board and Block as a whole. In September 2020, we bade farewell to Roger McMechan from the Board but continue to benefit from his extensive sub-surface and Georgian operations expertise on a consultancy basis.

Another priority for Block remained the health and safety of our employees and wider stakeholders. I'm pleased to report that we had no lost time incident during the year. Overall, the safety record was very good for a new company that has brought a number of innovative and modern technologies to Georgia.

As we have proven this past year, Block benefits from the flexibility of being able to easily shut-in and restart production in reaction to the fluctuating oil price. Our cautious decision to do so last year has been rewarded with a much-improved oil price environment from which we are able to benefit fully. Our prudent choices made in relation to capex and general business expenditure have ensured our strong position today, providing a stable base from which to pursue our recently announced strategic objectives and the West Rustavi drilling programme. I look forward to continuing our robust progress over the next year as the world begins to normalise.

Finally, I would like to thank all employees for their loyalty, tenacity, and hard work, particularly in light of the past year's challenges. We look forward to updating shareholders with further news in the months to come.

Philip Dimmock
Chairman

Block Energy Plc

Strategic Report

Chief Executive Officer's Statement

2020 was an extraordinary year for all people, businesses, and countries. The oil industry was hit particularly hard due to decreased oil demand, and many companies have had to close operations. We decided early on in 2020 that prudent cash management was the best way forward, in terms of our employees and preserving our statement of financial position. We implemented a work-from-home policy where possible, and our operational teams maintained social distancing and regular virus testing. Our capital expenditure was deferred, and we executed a change in salary structure to conserve cash. With our prudent approach in place, Block still managed to enjoy operational successes in 2020 through the installation of an EPF at West Rustavi and, through our gas sales agreement with Bago LLP, construction of pipelines that enabled our inaugural gas sales in February 2021 and the completion of the Schlumberger acquisition.

Due to our decision to conserve cash, 2020 was an operationally quieter year than expected, and we took the opportunity to strengthen our technical teams and sub-surface knowledge. We welcomed Andrew Moncur as drilling manager, who set to work building a robust and experienced team, drawing on expertise from around the region, including Georgia, and focusing it on wellbore construction success and quality. Having acquired 3D seismic data in 2019, we combined its findings with data and information inherited from the Schlumberger acquisition to improve our understanding of the development potential of the Company's increased acreage. We also engaged EPI in June 2020, whose expertise in geophysical and geological interpretation, petrophysics and reservoir engineering has helped analyse the geological aspects of horizontal well design and the selection and ranking opportunities in West Rustavi and Block XI^B. As a result, our substantial analysis and research have helped us devise three major strategic objectives that are all of scale, are potentially transformational for the Company, and are risked independently of one another. These three strategies – the development of West Rustavi, the production enhancement of existing mature fields, and the targeting of the Lower Eocene gas – provide a structure and direction integral to Block's future success as we gradually look beyond the Covid-19 pandemic.

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. As a priority, the ESG Committee will evaluate the potential for geothermal energy in its licences and Georgia generally.

Block remains dedicated to contributing to the Georgian economy and maintaining close relationships with the relevant Georgian government authorities and industry leaders. Senior management have travelled to Georgia from the UK when restrictions have allowed and enjoyed constant communication between offices.

During the year, the Company continued to produce and sell oil from its Norio, and Satskhenisi licences and revenue from the oil sales in 2020 was \$1,255,000, bolstering our cash position.

With a new strategic structure in place, I am optimistic 2021 will be a progressive year for Block and for all, supported by easing restrictions associated with Covid-19. I am especially grateful to all Block staff for their dedication to our company and their resilience in the face of incredible challenges. I look forward to updating the market with the results of our hard work, in particular our 2021 drilling campaign.

Paul Haywood
Chief Executive Officer

Block Energy Plc

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Chief Financial Officer's Statement

This report covers the year ended 31 December 2020, but the prior period covers the 18 months period ended 31 December 2019, because, in June 2019, to bring its financial reporting in line with peer companies and to carry out its year-end work when there is a seasonal reduction in operational activities, the Company changed its accounting reference date from 30 June to 31 December. Therefore, the current year ended 31 December 2020 is not directly comparable with the prior 18 months period ended 31 December 2019.

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

During the year ended 31 December 2020, Block Energy Plc continued to build its production and development base whilst maintaining a strong statement of financial position, because it 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 are detailed in note 12 to the consolidated financial statements, but included the following provisional 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.

In April 2020, owing to the combined impacts of lower oil demand caused by Covid-19 and the Russia–Saudi Arabia oil price war, 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 to the low oil price by postponing all new capital expenditure and reducing the monthly cash burn in Georgia by 40% from \$107,000 to \$64,000 through a combination of cost-cutting and deferral of operating and administration expenses. In the UK, directors and employees agreed to a scheme in which, with effect from 1 April 2020, 40% of their salaries were paid in nil-cost options to acquire Ordinary Shares in the Company, reducing monthly cash salary costs significantly.

In December 2020, Block Energy Plc completed a placing of 176 million new Ordinary Shares, raising £5.28 million (equivalent to \$7.2 million) before expenses with institutional investors at a placing price of 3 pence (equivalent to \$0.04) per share.

The Group's financial position has changed significantly over the past year, with Group net assets increasing from \$20,610,000 as at 31 December 2019 to \$29,866,000 owing to the acquisition of Block Rustaveli Limited and the \$7.2 million cash raised in the equity placing in December 2020. At the end of the year, the Group's cash balance was \$6,331,000 (2019: \$6,494,000).

Income statement

The Group's revenue increased to \$1,255,000 (2019: \$314,000) and other income included \$100,000 (2019: \$nil) for sales of materials. The current year revenue from sales of crude oil of \$1,255,000 (2019: \$314,000) comprised the sale of 34,421 barrels (2019: 5,210 barrels) of oil, which equated to average revenue of \$36.45 (2019: \$60.29) per barrel.

In addition, the Group had over 28,000 barrels (2019: over 14,000 barrels) of crude oil inventory as at 31 December 2020. Following the year end, during the quarter ended 31 March 2021, the Group sold 26,349 barrels of crude oil inventory for net revenue of \$1.374 million, which equates to average revenue of \$52.18 per barrel.

Following the year end, the Group commenced gas sales on 15 February 2021 and, during the period from 15 February 2021 to 31 March 2021, it sold 38.4 Mcf of gas for net revenue of \$123,000, which equates to an average gas price of \$3.20 per Mcf.

The loss for the year was \$5,512,000 as compared with a \$6,130,000 loss in the prior period. The main reason for the decrease in the loss is the income statement covers a shorter period of 12 months compared with 18 months in the prior period. During the year, the Group was still loss-making because, for most of the year, the wells in West Rustavi were shut in and not producing oil and gas to help to cover the Group's cost base.

Future prospects

Block Energy Plc

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Wells WR-38Z and WR-16aZ were returned to production on 28 January 2021 and 3 February 2021 respectively. During Q1 2021, the Company 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 February and March 2021, after WR-38Z had commenced production but excluding WR-16aZ (as the well is currently suspended), was 573 boepd. The average production rate for the four-month period ended 31 May 2021 (excluding WR-16aZ) was 526 boepd.

The Company has always been focused on controlling administration costs and continues to endeavour 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 13 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 well at WR-BA location and, by the end of the year, plans to drill a second well and spud a third well. 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 June 2022. 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 June 2022. The Company's forecasts are considered together with the Group's forecasts.

The directors note that Covid-19 has had a significant negative impact on the global economy and oil prices, which may mean it is harder to secure additional funding than it has historically been. As part of their going concern assessment, a reverse stress test has been performed, based on the scenario whereby, due to Covid-19 restrictions, if the Group were unable to continue with normal operations or were required to significantly reduce the forecasted production due to the capital expenditure not being incurred to complete the additional wells, a cash shortfall may occur. The global pandemic may also bring practical challenges to the timetables for drilling the new wells and the consequent sale of oil and gas from those wells. The directors are confident that current capital projects are funded and have a reasonable expectation that they could secure additional funding, if needed, to fund additional capital projects. However, these conditions are necessarily considered to represent a material uncertainty that may cast significant 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 period and the financial position of the Group are shown in the following financial statements. The Group has incurred a pre-tax loss of \$5,512,000 (2019: loss of \$6,130,000). The Group has net assets of \$29,694,000 (2019: net assets of \$20,610,000). The directors do not recommend the payment of a dividend (2019: nil).



William McAvoek
Chief Financial Officer

Block Energy Plc

Strategic Report

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 minimise these risks as far as possible. The Board considers that there is no necessity at the present time to establish an independent internal audit function given the current size and simplicity of the business.

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. In particular, Georgia has had ongoing disputes in the breakaway regions of Abkhazia and the Tskhinvali Region/South Ossetia, and with Russia, 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) 	The 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 its 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 the majority 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. 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 	Continued 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 code 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 sold 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>Significant parts of the Company's operations require permits, licences and leases from various governmental authorities in Georgia. There can be no assurance that the Company will be able to obtain all necessary permits, licences and leases that may be required to carry out future exploration and development at our 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>Both the drilling and workover programmes that have been and continue to be 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 well 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 capital expenditure, cost</p>

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		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 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 lost 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 dumped on the ground. Also, frequent spills can lead to fines being levied by the state.	The Group will continue to repair and upgrade its production facilities at its oilfields 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.
<ul style="list-style-type: none"> Dependence on key executives and personnel, 	Block Energy has a comparatively small number of current and proposed employees. The future success	Executive directors have notice periods of no less than three

Block Energy Plc

Strategic Report

employee retention and recruitment	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.	months to ensure sufficient time to hand over responsibilities in the event of a departure. The Remuneration Committee regularly evaluates compensation and incentivisation schemes to ensure they remain competitive.
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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 a number of 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.

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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, an oil and gas production company we have development and retention of our dedicated and skilled staff.	Transparent and regular communications with staff is essential for ensuring understanding of our commitment to the Company's objectives. As particular health, safety and environmental obligations (see 'Communities and environment' below).	London staff have daily team meetings. The international team joins 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 top 10 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.

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Strategic Report

Health, safety and environment

Our operations are conducted within a robust Health, Safety and Environment ("HSE") framework. We have 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 2021. It monitors performance against the Plan every month, assisted by regular reports from the HSE adviser. 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 2020 was the installation of a gas processing facility in West Rustavi that is enabling us to sell the gas 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 six directors: four independent non-executive directors, one with the role of Chairman, and two executive directors.

Paul Haywood | Chief Executive Officer

Committee memberships: Nominations 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

William has more than 14 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; Disclosure Committee (Chair); Nominations Committee (Chair); 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, recently, 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

Christopher Brown | Non-Executive Director

Committee memberships: Nominations Committee; Remuneration Committee (Chair); Technical Committee (Co-Chair)

Chris Brown has nearly 40 years' experience across the international upstream oil and gas sector. Educated at Exeter University, Imperial College and the INSEAD Management School, he is a founding director of Beagle Geoscience, which provides consultancy and management services for the exploration and production sector. During his career Chris has led oil and gas operations in the UK, Europe, North Africa and South America, while working for Shell, Enterprise Oil and Suncor.

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

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David ('Dato') Sandroshvili | Non-Executive Director

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

Dato has held senior oil and gas management and corporate finance advisory positions in the FSU and the UK. Currently CFO at New Age (African Global Energy) Limited, he has held senior positions at Ophir Energy plc and Evercore Partners, and worked at Citigroup and UBS Investment Bank. A dual national of Georgia and the UK, Dato has an MBA in International Finance from Brandeis University and a Diploma in Accounting from Tbilisi State University.

Charles ('Chuck') Valceschini | Non-Executive Director

Committee memberships: Audit and Risk Committee; HSE Committee; Technical Committee (Co-Chair)

Chuck has 40 years' experience in the upstream oil and gas sector, holding senior technical and leadership roles in companies including BP and American Energy Group Ltd, where he was CEO. He has expertise in the exploitation of onshore naturally fractured reservoirs in FSU countries, and is currently Chairman of JKX Oil & Gas plc and CEO of TechNefteGaz Consulting LLC. Chuck has degrees from the University of Wyoming and Portland State University, and is a graduate of the INSEAD Executive Management programme and the Moscow School of Management.

The strategic report was approved by the directors and signed on behalf of the Board on 1 June 2021.



Paul Haywood

Chief Executive Officer

1 June 2021

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 2020.

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 2020. In prior year, the Company changed its accounting reference date from 30 June to 31 December in order to bring its financial reporting into line with peer companies and to carry out its year-end work when there is a seasonal reduction in operational activities. Therefore, the current 12 months ended 31 December 2020 is not directly comparable with the prior 18 months period ended 31 December 2019.

The directors do not recommend payment of a dividend (2019: \$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 7.

During the year, the Company 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.

Also during the year, owing to the combined impacts of lower demand for oil caused by Covid-19 and the Russia–Saudi Arabia oil price war, 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 to the low oil price by postponing all new capital expenditure and reducing the monthly cash burn in Georgia through a combination of cost-cutting and deferral of operating and administration expenses. In the UK, directors and employees agreed a scheme in which, with effect from 1 April 2020, 40% of their salaries was paid in nil-cost options to acquire Ordinary Shares in the Company, reducing monthly cash salary costs. When the two new non-executive directors were appointed in December 2020, they agreed to have 50% of their fees paid in cash and 50% in nil-cost options to acquire Ordinary Shares in the Company.

Going concern

The directors note that Covid-19 has had a significant negative impact on the global economy and oil prices, which may mean it is harder to secure additional funding than it has historically been. As part of their going concern assessment, a reverse stress test has been performed, based on the scenario whereby, due to Covid-19 restrictions, if the Group were unable to continue with normal operations or were required to significantly reduce the forecasted production due to the capital expenditure not being incurred to complete the additional wells, a cash shortfall may occur. The global pandemic may bring practical challenges to the timetables for drilling new wells and the consequent sale of oil and gas from those wells. The directors are confident that current capital projects are funded and have a reasonable expectation that they could secure additional funding, if needed, to fund additional capital projects. However, these conditions are necessarily considered to represent a material uncertainty that may cast significant 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.

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Report of the Directors

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 10 to 14 of the Strategic Report.

Share capital

Details of shares issued by the Company during the period are set out in Note 21 to the financial statements.

Directors and directors' interests

The directors of the Company who served during the year ended 31 December 2020 are listed below, and the current Board members' biographies are on pages 18 to 19.

Paul Haywood	Chief Executive Officer
William McAvoek	Chief Financial Officer
Philip Dimmock	Independent Non-Executive Chairman
Christopher Brown	Director – Non-Executive
Charles Valceschini	Director (appointed 15 December 2020)
David Sandroshvili	Director (appointed 21 December 2020)
Roger McMechan	Technical Director (resigned 30 September 2020)

Details of directors' interests in shares are disclosed on page 36.

Directors' and officers' liability insurance

The Group provided directors' and officers' liability insurance at a cost of \$10,000 (2019: \$7,000).

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 International Financial Reporting Standards (IFRSs) 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.

Block Energy Plc

Report of the Directors

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.

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 24 to 32.

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 15 to 17. Furthermore, the Board has appointed Chris Brown 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 2020, political donations totalled \$nil (2019: \$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 27.

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Report of the Directors

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.

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

The Directors' Report was approved and authorised for issue on 1 June 2021.



Paul Haywood

Director

Date: 1 June 2021

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. Two wells at West Rustavi have been horizontally sidetracked, one of which is currently on production and the other is temporarily suspended while undergoing a workover. 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.

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- 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

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Governance Report

meetings, the broker provides anonymised feedback to the Board from all of the fund managers we meet with to 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 15 to 17.

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 David Sandroshvili (Chair), Philip Dimmock and Charles Valceschini. During 2020, it comprised Philip Dimmock and Chris Brown.

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 Chris Brown (Chair) and David Sandroshvili. During 2020, it comprised Chris Brown and Philip Dimmock.

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), David Sandroshvili and Paul Haywood. During 2020, it comprised Philip Dimmock, Chris Brown 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 comprises Philip Dimmock (Chair) 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 Chris Brown (Co-Chair) and Charles Valceschini (Co-Chair). During 2020, it comprised Chris Brown, Philip Dimmock, Roger McMechan and Paul Haywood.

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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 comprises 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 comprises David Sandroshvili (Chair), Chris Brown and William McAvock. As a priority, the ESG Committee will evaluate the potential for geothermal energy in its licences and Georgia generally.

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 2020 is summarised below:

Director name	Board meetings	Audit and Risk Committee	Remuneration Committee	Nominations Committee	Technical Committee
Chris Brown	28/28	3/3	8/8	9/9	13/13
Philip Dimmock	28/28	3/3	8/8	9/9	13/13
Paul Haywood	27/28			9/9	13/13
William McAvock	28/28				
Roger McMechan ⁽³⁾	20/20				5/6
David Sandroshvili ⁽²⁾	1/1				
Charles Valceschini ⁽¹⁾	1/1				

(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.

(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.

(3) Resigned as a director on 30 September 2020.

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.

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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.

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.

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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.

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;

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-
- 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.

Technical Committee

Please see the description of our Technical Committee above.

HSE Committee

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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 three times during the year ended 31 December 2020.

Nominations Committee Report

The Nominations Committee meets as and when necessary to consider appointments to the Board and senior management positions and has met [X] times during the year ended 31 December 2020. It has developed criteria for selecting non-executive directors to formulate a succession plan. During 2020, 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)
- Dato Sandroshvili
- 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 December 2020, 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.

Technical Committee Report

A Technical Committee meeting ("TCM") is usually held monthly 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

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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 2020, the team integrated the newly processed 3D-seismic data into its West Rustavi database and analysed the adjacent Schlumberger data. This work resulted in a number of further drilling opportunities, some of which were used in the Q4 2020 investor presentation. The first of these wells will be the well at WR-BA location, where drilling is planned to commence during June 2021.

HSE Committee Report

The HSE Committee is newly established and has not met yet.

ESG Committee Report

The ESG Committee is newly established and has not met yet.

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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Remuneration Report

This Remuneration Report covers the year ended 31 December 2020. The Remuneration Committee currently comprises Chris Brown (Chairman) and Dato Sandroshvili, and, during the year ended 31 December 2020, comprised Chris Brown (Chairman) and Philip Dimmock. 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 the year, owing to the combined impacts of lower demand for oil caused by Covid-19 and the Russia–Saudi Arabia oil price war, 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 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. This commenced for William McAvoek from 13 May 2019 (the date his employment commenced) and for Paul Haywood and Roger McMechan from 1 July 2019.

During 2021, the company will investigate the provision of other benefits, such as private medical cover and life cover, for 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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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 February 2021 were for the 18 months period from 1 July 2019 to 31 December 2020 and were accrued in the 2020 accounts. In keeping with the current practice of preserving as much cash as possible for operations, these bonuses were paid in the form of nil cost share options in lieu of cash. The next bonus payments are planned to be paid in early 2022, depending on the economic environmental conditions and the financial resources of the Company at that time, and will be for the 12 months period from 1 January 2021 to 31 December 2021.

Description of Company KPIs for the 18 months period from 1 July 2019 to 31 December 2020

- 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 a comprehensive HSE plan was introduced with consistent reporting in place.
- Production – set ambitious production targets to be achieved from all company operations. Due to the Company's decision to suspend production from the West Rustavi field in response to the challenges of Covid-19 and low oil prices, the Threshold measure was not reached.
- Work Programme – set targets for in country operations, such as drilling and facilities. While the drilling performance did not meet the Threshold measure, the gas sales system is now operational and a new drilling and production plan has been designed.
- Budget – encouraged meeting or coming under the agreed financial budget by setting targets for end of year cash balance. At the end of 2020, the Target measure 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.

Description of Chief Executive Officer's KPIs for the 18 months period from 1 July 2019 to 31 December 2020

- 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 Target measure was achieved against the backdrop of low oil price and Covid-19 with the closure of the deal with Schlumberger. This deal added acreage with ongoing production, development and exploration opportunities.
- Strategic Financing – growing the business required sourcing additional funding. The Target measure was achieved with the £5.28 million equity placing in December 2020.
- Planning / Execution - rewarded oversight of the company meeting its key objectives. The Threshold measure was not achieved.
- Leadership – this is a discretionary measure. During the year, relentless drive, in the face of Covid-19, was demonstrated by the CEO in the closure and integration of the business acquired from Schlumberger and the Target measure was achieved.

Description of Chief Financial Officer KPIs for the 18 months period from 1 July 2019 to 31 December 2020

- Cost Management – close adherence of the agreed budget is required for both operations and G&A. During the year, the Threshold measure was achieved.
- Value Adding Initiatives – the CFO is encouraged to pursue money saving initiatives throughout the year. In 2020, a number of these were identified and enacted and the Stretch measure was exceeded.
- Treasury – the CFO is expected to ensure there are sufficient funds for running the business and future operations. In 2020, the CFO played an important role in the £5.28 million equity placing and the Target measure was achieved.
- Leadership – this is a discretionary measure. During the year, the CFO displayed good leadership in adverse business conditions and the Target measure was achieved.

Description of KPIs for the 12 months period from 1 January 2021 to 31 December 2021

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For 2021, the executives have been set a similar set of KPIs as the ones set for the period from 1 July 2019 to December 2020 at both company and individual levels, but, in 2021, we shifted the emphasis from individual KPIs to more corporate KPIs. Therefore, the weighting of individual KPI's reduced from 60% to 40% and the weighting of company KPI's increased from 40% to 60% of the total. Greater emphasis has been placed 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 2021, the vesting of any LTIP awards will be conditional on the certain performance milestones being satisfied.

Directors' remuneration

							Year ended 31 December 2020	18 months to 31 December 2019
	Salary	Bonus ⁶	Fees	Termination	Pension	Shares issued	Total	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Non-Executive Directors								
Christopher Brown	-	-	35,081	-	-	2,139	37,220	41,964
Philip Dimmock	-	-	55,830	-	-	3,209	59,039	76,418
Timothy Parson ¹	-	-	-	-	-	-	-	7,744
Roger McMechan ²	-	-	12,684	-	-	-	12,684	-
Subtotal	-	-	103,595	-	-	5,348	108,943	126,126
Executive Directors								
Niall Tomlinson ³	-	-	-	-	-	-	-	162,695
Paul Haywood *	224,605	192,518	-	-	24,539	-	441,662	430,347
Roger McMechan ⁴	150,170	-	-	-	8,241	-	158,411	335,906
Serina Bierer ⁵	-	-	-	-	-	-	-	78,528
William McAvoek *	160,432	83,425	-	-	21,924	-	265,781	56,349
Subtotal	535,207	275,943	-	-	54,704	-	865,854	1,063,825
Total	535,207	275,943	103,595	-	54,704	5,348	974,797	1,189,951

* The pension is higher than 10% of salary because some of the salary and bonus was sacrificed under a salary sacrifice scheme and the Company's National Insurance saving was paid as an additional pension contribution.

¹ Resigned as a director on 3 October 2018.

² Resigned as a director on 30 September 2020.

³ Resigned as a director on 30 November 2019.

⁴ Resigned as an employee and transferred from an executive director to a non-executive director on 3 June 2020.

⁵ Resigned as a director on 21 January 2019.

⁶ The bonus payments made in February 2021 were for the 18 months period from 1 July 2019 to 31 December 2020 and were accrued in the 2020 accounts.

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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 2020	31 December 2019
<u>Non-Executive Directors</u>		
Chris Brown	170,443	69,957
Philip Dimmock	626,649	475,918
Charles Valceschini	-	-
David Sandroshvili	-	-
Sub-total	797,092	545,875
<u>Executive Directors</u>		
Paul Haywood	2,143,419	2,143,419
Roger McMechan	-	3,401,260
William McAvock	-	-
Sub-total	2,143,419	5,544,679
Total	2,940,511	6,090,554

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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 2020	31 December 2019
<u>Non-Executive Directors</u>		
Chris Brown*	360,415	-
Philip Dimmock*	569,205	-
Charles Valceschini	-	-
David Sandroshvili	-	-
Sub-total	929,620	-
<u>Executive Directors</u>		
Paul Haywood*	14,157,101	12,156,428
Roger McMechan	-	6,370,952
William McAvoek*	4,554,052	3,125,000
Sub-total	18,711,153	21,652,380
Total	19,640,773	21,652,380

* The options issued to directors during 2020 were all due to the issue of nil cost options in lieu of cash payment of 40% of salary.

Director	Grant date	Expiry date	Life (years)	Number	Exercise price (pence)
Paul Haywood	6 April 2018	11 June 2028	10.2	4,400,000	2.5
Paul Haywood	9 June 2018	11 June 2028	10.0	7,756,428	4.0
Paul Haywood	1 May 2020 to 1 December 2020	1 May 2020 to 1 December 2020	10.0	2,000,673	0.0
William McAvoek	21 October 2019	21 October 2029	10.0	3,125,000	11.0
William McAvoek	1 May 2020 to 1 December 2020	1 May 2020 to 1 December 2020	10.0	1,429,052	0.0
Chris Brown	1 December 2020	1 December 2020	10.0	360,415	0.0
Philip Dimmock	1 May 2020 to 1 December 2020	1 May 2020 to 1 December 2020	10.0	569,205	0.0
				<u>19,640,773</u>	



Christopher Brown
Chairman of the Remuneration Committee
Date: 1 June 2021

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 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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 2020 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cashflows, the Parent Company Statement of Financial Position, the Parent Company Statement of Changes in Equity, the Parent Company Statement of Cashflows and 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 international accounting standards in conformity with the requirements of the Companies Act 2006 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 negative impact of Covid-19 on the global economy, oil prices, and the potential consequential impact on the Group's ability to secure additional funding. It further notes that the global pandemic may also bring practical challenges to the Company and its suppliers that challenge planned timetables for the construction of the gas pipeline and the consequent sale of gas and therefore a cash shortfall may occur. As stated in note 1, these conditions indicate that a material uncertainty exists that may cast significant doubt on 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:

- Critically assessing Management's 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 licences, historical revenue profiles, historical actuals and forecasted production levels, and operating expenditure historic actuals in order to assess the reasonableness of the forecasts.

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Independent Auditor's Report

- Considering 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 specifically considered the construction of the gas pipeline and considered sensitivities over sales volumes.
- Assessing 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 considering the implications of the global Covid-19 Pandemic on the Group. As appropriate we confirmed the key inputs to publically available information and underlying source documentation.
- Performing 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.
- Performing a reverse stress test that considered the possible impact on cash flows if no new sales were to occur during the period as a result of the current circumstances due to the Covid-19 pandemic.
- Making enquiries of Management and reviewing Board minutes and key operational contracts to assess the completeness of commitments considered in the cash flow forecasts.
- Evaluating the adequacy of disclosure made in the consolidated 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	<i>94% (2019: 79%) of Group profit before tax 100% (2019: 100%) of Group revenue 98% (2019: 100%) of Group total assets</i>		
Key audit matters	<ol style="list-style-type: none"> 1. Going concern 2. Carrying value of development and production assets recorded within Property, Plant and Equipment 3. Acquisition of Block Rustaveli Limited ('BRL') 	2020 ✓ ✓ ✓	2019 ✓ ✓ N/A
Materiality	<i>Group financial statements as a whole</i> \$300,000 (2019: \$200,000) based on 1% (2019: 1%) of total assets.		

¹ These are areas which have been subject to a full scope audit procedures

Block Energy Plc

Independent Auditor's Report

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: 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 represent the significant components of the Group. All audit work on the significant components was conducted by the Group audit team with the use of local Georgian BDO Member Firm team members where required.

The remaining components of the Group were considered non-significant and were principally subject to analytical review procedures. For these non-significant components, detailed audit testing was also performed on financial statement areas where specific audit risks had been identified, specifically with regards to Satskhenisi Limited. 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 of our report, we have determined the matters below to be the key audit matters to be communicated in our report:

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Independent Auditor's Report

Key audit matter	How the scope of our audit addressed the key audit matter
<p>Carrying value of development and production assets recorded within Property, Plant and Equipment</p> <p>Refer to the Accounting policies and note 14.</p>	<p>We evaluated Management's and the Directors' 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 standard by performing the following procedures:</p> <ul style="list-style-type: none"> • We assessed Management's impairment indicator review to establish whether it was performed in accordance with the requirements of the relevant accounting standard. • 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 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 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 publically available information and other third party information. We considered assumptions such as 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. • We reviewed third party reports obtained from Management's expert relating to the reserves and resources impacting the impairment model. • And we performed an assessment of the competence, independence and objectivity of Management's expert.

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		Key observations: Based on the work performed we considered the key assumptions used by Management in performing their impairment assessment to be reasonable and appropriate.
Acquisition of Block Rustaveli Limited ('BRL') Refer to the Accounting policies and note 12.	<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 and the Directors were required to assess the transaction under applicable accounting standards as to determine whether or not the transaction meets the definition of a business acquisition or asset acquisition.</p> <p>Management's assessment of the transaction required making a number of judgements, for example potential fair value judgements, and the resulting accounting can be complex.</p> <p>In addition there is further judgement arising relating to Management's assessment of the cut-off of transactions around the acquisition date.</p> <p>Given the significance of the assets to the Group's consolidated statement of financial position and the significant management judgements and estimates involved to determine the appropriate transaction accounting and fair value assessments required as part of the accounting for the transaction this was considered to be a key audit matter.</p>	<p>We critically challenged the Group's considerations as to whether the transaction meets the definition of a business combination, as well as their provisional assessment of the fair value of the consideration paid and the net assets acquired calculated in accordance with the relevant accounting standard. In so doing we performed the following procedures:</p> <ul style="list-style-type: none"> • We reviewed the share purchase agreements and agreed the key contract terms in Management's evaluation of the transaction and assessed the date of the acquisition to identify the point at which control was passed. • We assessed Management's conclusion that the transaction was a business combination in line with the requirements of the applicable accounting standards. We further performed our own assessment of the elements of the inputs, processes and outputs relating to the transaction which were present at the point of acquisition and in the period prior to the acquisition date in order to assess the appropriateness of the proposed accounting treatment. • We assessed all the elements of the consideration paid in order to assess the provisional fair value of the total consideration by agreeing the elements to the contract and option price on transaction date. • We challenged Management's determination of the provisional 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 Management's inputs such as fair value of inventory to actual sales prices and fair value of working capital to agreements reached with the Seller. • We assessed Management's provisional treatment of the right of use assets on acquisition date and confirmed that the leases are considered short term by reviewing the related source documents. • We assessed the cut off of the balance sheet in the completion

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		<p>accounts to check that it was appropriately taken at transaction date by selecting a sample of transactions across all areas before and after acquisition date and agreeing the sample to underlying support such as invoices to determine the appropriate date of the transaction.</p> <ul style="list-style-type: none">• We assessed whether all transaction related expenses were appropriately expensed to the income statement through verification to source documentation• We assessed whether the provisional deferred tax implications of the transactions were appropriate by reviewing the calculation provided by Management and agreeing inputs to source documentation. <p>Key observations: Based on the work performed we considered the key assumptions used by Management in performing their assessment of the accounting treatment 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.

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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	
	2020	2019	2020	2019
Materiality	\$300,000	\$200,000	\$220,000	\$146,000
Basis for determining materiality	1% of total assets		1% of total assets adjusted for elimination of intercompany assets	
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.		We consider adjusted total assets to be the most significant consideration for users of the financial statements as the Parent Company continues to develop its portfolio of oil and gas assets through to production.	
Performance materiality	\$225,000	\$130,000	\$165,000	\$95,000
Basis for determining performance materiality	75% (2019: 65%) of Group materiality The level of performance materiality was determined based on our assessment of the likelihood of error and the nature of the transactions undertaken by the Group.		75% (2019: 65%) of Parent Company materiality The level of performance materiality was determined based on our assessment of the likelihood of error and the nature of the transactions undertaken by the Parent Company.	

Component materiality

We set materiality for each component of the Group based on a percentage of between 50% and 73% (2019: 25% to 50%) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from \$150,000 to \$220,000 (2019: \$50,000 to \$146,000). In the audit of each component, we further applied performance materiality levels of 75% (2019: 65%) of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of \$6,000 (2019:\$4,000). 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.

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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 Statement of Directors' Responsibilities, 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 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.

Block Energy Plc

Independent Auditor's Report

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 & Gas Regulation.
- 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.

DocuSigned by:
Anne Sayers

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Anne Sayers (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
1 June 2021

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

Block Energy Plc

Consolidated Statement of Comprehensive Income for the year ended 31 December 2020

	Note	Year ended 31 December 2020	18 months period ended 31 December 2019
Continuing operations		\$'000	\$'000
Revenue	4	1,255	314
Other cost of sales		(2,203)	(633)
Depreciation and depletion of oil and gas assets	5	(781)	(574)
Total cost of sales		(2,984)	(1,207)
Gross loss		(1,729)	(893)
Other administrative costs		(3,295)	(3,783)
Share based payments charge		(641)	(862)
Total administrative expenses	6,7	(3,936)	(4,645)
Foreign exchange movement		49	(657)
Operating loss		(5,616)	(6,195)
Finance income	8	14	69
Other income	9	100	-
Finance expense		(10)	(4)
Loss for the year/period before taxation		(5,512)	(6,130)
Taxation	10	-	-
Loss for the year/period from continuing operations (attributable to the equity holders of the parent)		(5,512)	(6,130)
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translation of foreign operations		(389)	483
Total comprehensive loss for the year/period (attributable to the equity holders of the parent)		(5,901)	(5,647)
Loss per share basic and diluted	11	(1.31)c	(1.96)c

All activities relate to continuing operations.

The notes on pages 51 to 77 form part of these consolidated financial statements.

Block Energy Plc

Consolidated Statement of Financial Position at 31 December 2020

		31 December 2020	31 December 2019
	Note	\$'000	\$'000
Non-current assets			
Intangible assets	13	-	-
Property, plant and equipment	14	21,311	12,713
		21,311	12,713
Current assets			
Inventory	15	4,114	2,519
Trade and other receivables	17	2,256	303
Cash and cash equivalents	18	6,331	6,494
Total current assets		12,701	9,316
Total assets		34,012	22,029
Equity and liabilities			
Capital and reserves attributable to equity holders of the Parent Company:			
Share capital	21	3,353	2,623
Share premium	22	34,234	27,985
Other reserves	23	9,120	1,114
Foreign exchange reserve		44	433
Accumulated deficit		(17,057)	(11,545)
Total equity		29,694	20,610
Liabilities			
Trade and other payables	20	1,656	1,143
Provisions	16	2,662	276
Total current liabilities		4,318	1,419
Total equity and liabilities		34,012	22,029

The financial statements were approved by the Board of Directors and authorised for issue on 1 June 2021 and were signed on its behalf by:



William McAvoek
Director



Paul Haywood
Director

The notes on pages 51 to 77 form part of these consolidated financial statements.

Block Energy Plc

Consolidated Statement of Changes in Equity at 31 December 2020

	Share Capital \$'000	Share Premium \$'000	Accumulated deficit \$'000	Other Reserves \$'000	Foreign Exchange Reserve \$'000	Total Equity \$'000
Balance at 30 June 2018	2,192	12,221	(5,623)	460	(50)	9,200
Loss for the period	-	-	(6,130)	-	-	(6,130)
Exchange differences on translation of foreign operations	-	-	-	-	483	483
<i>Total comprehensive loss for the period</i>	-	-	(6,130)	-	483	(5,647)
Issue of shares	431	16,655	-	-	-	17,086
Cost of issue	-	(891)	-	-	-	(891)
Share based payments	-	-	208	654	-	862
<i>Total transactions with owners</i>	<i>431</i>	<i>15,764</i>	<i>208</i>	<i>654</i>	<i>-</i>	<i>17,057</i>
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>	<i>730</i>	<i>6,249</i>	<i>-</i>	<i>8,006</i>	<i>-</i>	<i>14,985</i>
Balance at 31 December 2020	3,353	34,234	(17,057)	9,120	44	29,694

The notes on pages 51 to 77 form part of these consolidated financial statements.

Block Energy Plc

Consolidated Statement of Cashflows for the year ended 31 December 2020

		Year ended 31 December 2020	18 months period ended 31 December 2019
	Note	\$'000	\$'000
Cash flow from operating activities			
Loss for the year/period before tax		(5,512)	(6,130)
<i>Adjustments for:</i>			
Depreciation and depletion	5	781	574
Impairment of PP&E	2,14	172	-
Finance income	8	(15)	(69)
Finance expense		9	4
Share based payments expense	7	641	862
Foreign exchange movement		(49)	657
Operating cash flows before movements in working capital		(3,973)	(4,102)
(Increase) in trade and other receivables		(513)	(134)
Increase in trade and other payables		342	703
Decrease/(increase) in inventory		955	(2,185)
Net cash used in operating activities		(3,189)	(5,718)
Cash flow from investing activities			
Income received		15	37
Expenditure in respect of intangible assets		-	(264)
Expenditure in respect of PP&E		(2,617)	(8,050)
Net cash used in investing activities		(2,602)	(8,277)
Cash flow from financing activities			
Proceeds from issue of equity		5,754	16,087
Costs related to issue of equity		(405)	(891)
Interest paid		(9)	(4)
Net cash inflow from financing activities		5,340	15,192
Net (decrease)/increase in cash and cash equivalents in the year/period		(451)	1,197
Cash and cash equivalents at start of year/period		6,494	5,278
Effects of foreign exchange rate changes on cash and cash equivalents		288	19
Cash and cash equivalents at end of year/period		6,331	6,494

The notes on pages 51 to 77 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 12 and 21.

Block Energy Plc

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 2020 were authorised for issue in accordance with a resolution of the directors on 1 June 2021. 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 19 and the Report of the Directors on pages 20 to 23.

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.

During the prior period, the Group changed its accounting reference date from 30 June to 31 December and consequently the prior period covers the 18 months period ended 31 December 2019.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and IFRIC Interpretations Committee ('IFRS IC') 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.

Block Energy Plc

Notes forming part of the Consolidated Financial Statements(continued)

New and amended standards adopted by the Group

During the current year the Group adopted all the new and revised standards, amendments and interpretations that are relevant to its operations and are effective for accounting periods beginning on 1 January 2020. This adoption did not have a material effect on the accounting policies of the Group.

New standards that have been adopted in the financial statements for the year ended 31 December 2020 include:

Definition of a Business (Amendments to IFRS 3)

Amendments to IFRS 3 were mandatorily effective for reporting periods beginning on or after 1 January 2020. The Group has applied the revised definition of a business for acquisitions occurring on or after 1 January 2020 in determining whether an acquisition is accounted for in accordance with IFRS 3 *Business Combinations*. The amendments do not permit the Group to reassess whether acquisitions occurring prior to 1 January 2020 met the revised definition of a business. See note 12 for disclosures relating to the Group's business combination occurring during the year ended 31 December 2020.

IFRS 16 Leases

The new standard recognises a lease asset and a lease liability for almost all leases and requires them to be accounted for in a consistent manner. This introduces a single lessee accounting model and eliminates the previous distinction between an operating lease and a finance lease. Management have identified material lease arrangements, and have assessed the impact of the Standard as immaterial, as almost all current leases in the Group are short term.

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 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 IFR Standards, 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;

Block Energy Plc

Notes forming part of the Consolidated Financial Statements(continued)

- 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 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 13 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 well at WR-BA location and, by the end of the year, plans to drill a second well and spud a third well. 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 June 2022. 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 June 2022. The Company's forecasts are considered together with the Group's forecasts.

The directors note that Covid-19 has had a significant negative impact on the global economy and oil prices, which may mean it would be more difficult to secure additional funding than it has historically been. As part of their going concern assessment, a reverse stress test has been performed, based on the scenario whereby, due to Covid-19 restrictions, if the Group were unable to continue with normal operations or were required to significantly reduce the forecasted production due to the capital expenditure not being incurred to complete the additional wells, a cash shortfall may occur. The global pandemic may also bring practical challenges to the timetables for drilling the wells and the consequent sale of oil and gas from those wells.

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

The directors are confident that current capital projects are funded and have a reasonable expectation that they could secure additional funding, if needed, to fund additional capital projects. However, these conditions necessarily indicate that a material uncertainty exists that may cast significant doubt over the Group and Company's ability to continue as a going concern and therefore their ability to realise their assets and discharge their liabilities in the normal course of business. 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 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

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Notes forming part of the Consolidated Financial Statements(continued)

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 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

Block Energy Plc

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

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.

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.

Block Energy Plc

Notes forming part of the Consolidated Financial Statements(continued)

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: \$1.3678/£1 (2019: \$1.3254/£1). Transactions in foreign 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 2020 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 to a customer. Transfer of control is usually concurrent with both transfer of title and the customer taking physical possession of the oil, which is determined by reference to the oil 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.

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.

Borrowings

Borrowings are recorded initially at fair value, net of attributable transaction costs. Borrowings are subsequently carried at their amortised cost and finance charges, including any premium payable on

Block Energy Plc

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

settlement or redemption, are recognised in the profit or loss over the term of the instrument using the effective rate of interest.

Financial instruments

The Group adopted the amendments to IFRS 9 in the prior period. 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;

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.

Block Energy Plc

Notes forming part of the Consolidated Financial Statements(continued)

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 and warrants 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 and warrants, the proportion of the share based payment reserve relevant to those options and warrants 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 charged in the accounting period during which the option and warrants becomes unconditional.

The fair value of options and warrants are calculated using the Black-Scholes model, taking into account the terms and conditions upon which the options and warrants 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 and warrants that are expected to vest. At the end of each reporting period, the Company revises its estimate of the number of options and warrants that are expected to vest. The exercise price is fixed at the date of grant and no 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.

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, 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 an impairment of \$172,000 on the carrying value of the development and production assets at Satskhenisi oilfield.

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 2020 and concluded that a provision of \$1,641,000 (2019: \$276,000) should be recognised in respect of future decommissioning obligations at Rustaveli, West Rustavi, Satskhenisi and Norio (refer note 16).

Block Energy Plc

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

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 25.

Accounting for business combinations and fair value – estimates and assumptions

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.

Block Energy Plc

Notes forming part of the Consolidated Financial Statements(continued)

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:

	Oil Extraction \$'000	Corporate and other \$'000	Group	Total \$'000
Year ended 31 December 2020				
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	8		21,311

	Oil Extraction \$'000	Corporate and other \$'000	Group	Total \$'000
18 month period ended 31 December 2019				
Revenue	314	-		314
Cost of sales	(633)	-		(633)
Depreciation and depletion	(571)	(3)		(574)
Administrative costs	(1,049)	(3,596)		(4,645)
Net Finance costs, income and forex	-	(592)		(592)
Loss from operating activities	(1,939)	(4,191)		(6,130)
Total non-current assets	12,702	11		12,713

	31 December 2020 \$'000	31 December 2019 \$'000
Segmental Assets		
Oil exploration – Georgia	26,483	15,991
Corporate and other	7,529	6,038
	34,012	22,029

	31 December 2020 \$'000	31 December 2019 \$'000
Segmental Liabilities		
Oil exploration – Georgia	3,239	1,157
Corporate and other	1,079	262
	4,318	1,419

Block Energy Plc

Notes forming part of the Consolidated Financial Statements (continued)

4. Revenue

	Year ended 31 December 2020	18 months period ended 31 December 2019
	\$'000	\$'000
Crude oil revenue	1,255	314
	<u>1,255</u>	<u>314</u>

Block Rustaveli Limited contributed \$308,000 of new crude sales to the group since acquisition on 23 November 2020.

The first crude oil sale from the West Rustavi oil field was made in November 2019.

5. Depreciation and Depletion on Oil and Gas assets

	Year ended 31 December 2020	18 months period ended 31 December 2019
	\$'000	\$'000
Depreciation of PP&E	109	52
Depletion of oil and gas assets	672	522
	<u>781</u>	<u>574</u>

6. Expenses by nature

	Year ended 31 December 2020	18 months period ended 31 December 2019
	\$'000	\$'000
Employee benefit expense	1,559	2,132
Share option charge	460	660
Warrants charge	181	202
Fees to Auditor in respect of the Group audit	94	38
Fees to Auditor in respect of the Company audit	94	38
Fees to Auditor for other non-audit services	39	-
Regulatory fees	38	81
Operating lease expense	57	54

7. Directors and employees

	Year ended 31 December 2020	18 months period ended 31 December 2019
	\$'000	\$'000
<u>Employment costs (inc. directors' remuneration):</u>		
Wages and salaries	2,149	2,341
Pensions	147	251
Share based payments	641	862
Social security costs	48	108
	<u>2,985</u>	<u>3,562</u>

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

Block Energy Plc

Notes forming part of the Consolidated Financial Statements(continued)

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 2020 was 102 (2019: 37) split as follows:

	Year ended 31 December 2020	18 months period ended 31 December 2019
Management	5	7
Technical	77	17
Administration	20	13
	102	37

	Year ended 31 December 2020	18 months period ended 31 December 2019
	\$'000	\$'000
<i>Amounts attributable to the highest paid director:</i>		
Director's salary and bonus	350	399
Pension	25	31
Share based payments	67	-
	442	430

Key management and personnel are considered to be the directors.

8. Finance Income

	31 December 2020	31 December 2019
	\$'000	\$'000
Settlement of loan	-	32
Other finance income	14	37
	14	69

During the prior period, the Company reached a settlement agreement on the loan for \$59,000, whereby it was agreed to settle the loan for an amount of £20,000 (\$27,000), through the issue of 500,000 at £0.04p, resulting in a gain on settlement of loan of £24,550 (\$32,000) being recorded in finance income.

9. Other income

	Year ended 31 December 2020	18 months period ended 31 December 2019
	\$'000	\$'000
Sale of materials	100	-
	100	-

During the period, materials to be used in the construction of the gas pipeline from the Early Production Facility at West Rustavi were sold for \$100,000 (2019: \$nil).

Block Energy Plc

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

10. Taxation

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

	Year ended 31 December 2020 \$'000	18 months period ended 31 December 2019 \$'000
UK taxation		
UK Loss on ordinary activities	(5,512)	(6,034)
Loss before taxation at the average UK standard rate of 19% (2019: 19%)	(1,047)	(1,146)
Effect of:		
Zero tax rate income	(257)	(60)
Tax losses for which no deferred income tax asset was recognised	1,304	1,206
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 \$13,808,000 (2019: \$8,296,000).

	Year ended 31 December 2020 \$'000	18 months period ended 31 December 2019 \$'000
Unrecognised gross deferred tax position		
Tax losses bought forward	8,296	2,262
Timing differences bought forward	-	-
Total unrecognised gross deferred tax position at start of year/period	8,296	2,262
Tax losses not recognised in the year/period	5,512	6,034
Movement in timing differences	-	-
Tax losses carried forward	13,808	8,296
Timing differences carried forward	-	-
Total unrecognised gross deferred tax position at start of year/period	13,808	8,296
	Year ended 31 December 2020 \$'000	18 months period ended 31 December 2019 \$'000
Unrecognised deferred tax asset		
Tax losses	1,304	1,206
Timing differences	-	-
Total unrecognised deferred asset	1,304	1,206

Block Energy Plc

Notes forming part of the Consolidated Financial Statements(continued)

11. Loss per share

The calculation for earnings 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 2020	18 months period ended 31 December 2019
Loss attributable to equity Shareholders (\$'000)	(5,512)	(6,130)
Weighted average number of Ordinary Shares	419,300,390	312,998,744
Loss per Ordinary share (\$/cents)	(1.31)c	(1.96)c

Earnings and diluted loss per Ordinary Share are calculated using the weighted average number of Ordinary Shares in issue during the period. 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/period.

Block Energy Plc

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

12. Acquisition of Subsidiaries and associated PSC interests

Acquisition of Block Rustaveli Limited ("BRL")

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.

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	Provisional Fair value adjustments	Provisional Fair value of assets acquired
	\$'000	\$'000	\$'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 has contributed \$308,000 and \$183,000 in the current year to the Group revenue and loss respectively. If the acquisition had occurred on 1 January 2020,

Block Energy Plc

Notes forming part of the Consolidated Financial Statements(continued)

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. For the purposes of the current period of reporting, the fair values related to the transaction accounting are considered provisional, as permitted under the requirements of the accounting standards. These fair values will be finalised within a period of twelve months from the acquisition date.

Acquisition of interest in the West Rustavi PSC

At 30 June 2018, the total Group interest in the West Rustavi PSC was 25%.

During the 18 months period ended 31 December 2019, Block Energy Plc, through Georgia New Ventures Inc. ("GNV"), increased its working interest in the West Rustavi PSC from 25% to 100% through a three staged settlement, as follows:

- Stage 1: Increase from 25% to 71.5% working interest by acquiring an additional 46.5% working interest for the consideration of \$250,000 cash and \$500,000 in shares –completed on 13 March 2019.
- Stage 2: increase from 71.5% to 90% working interest by acquiring an additional 18.5% working interest for the consideration of \$250,000 in cash –completed on 12 July 2019.
- Stage 3: increase from 90% to 100% working interest by acquiring an additional 10% working interest for the consideration of \$500,000 in shares –completed on 19 July 2019.

The increases in working interest on this transaction have been treated as asset acquisitions and recorded at cost.

13. Intangible assets

	Licences \$'000	Exploration and Evaluation cost \$'000	Total \$'000
Cost			
At 1 July 2018	1,894	-	1,894
Additions during the period	250	14	264
Transfer to property, plant and equipment	(2,144)	(14)	(2,158)
At 31 December 2019	-	-	-
At 31 December 2020	-	-	-

The additions in the prior period are a result of the West Rustavi PSC increase from 25% to 100%. The transfer to PP&E in the prior period relates to the West Rustavi (\$1,887,000) and Satskhenisi PSC (\$257,000).

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Notes forming part of the Consolidated Financial Statements (continued)

14. Property, Plant and Equipment

	Licence area \$'000	Development / Production Assets \$'000	Computer / Office Equipment / Motor Vehicles \$'000	Total \$'000
<i>Cost</i>				
At 1 July 2018	1,641	208	-	1,849
Transfer from intangibles	2,158	-	-	2,158
Additions	1,186	8,011	129	9,326
At 31 December 2019	4,985	8,219	129	13,333
Additions	2,207	565	210	2,982
Additions through acquisition		6,258	506	6,764
Disposals	(69)	(69)	(54)	(192)
Foreign exchange movements	-	-	(14)	(14)
At 31 December 2020	7,123	14,973	777	22,873
<i>Accumulated Depreciation</i>				
At 1 July 2018	18	28	-	46
Charge for the period	-	567	7	574
At 31 December 2019	18	595	7	620
Disposals	-	-	(11)	(11)
Charge for the year/period	607	65	109	781
Impairment charge	172	-	-	172
At 31 December 2020	779	660	105	1,562
<i>Carrying Amount</i>				
At 31 December 2019	4,967	7,624	122	12,713
At 31 December 2020	6,326	14,313	672	21,311

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 2020	2,298	230	11,767	6,866	150	21,311
At 31 December 2019	2,465	435	9,671	-	142	12,713

At the end of the current year, the directors concluded there were no impairment indicators in the current period 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)

15. Inventory

	31 December 2020 \$'000	31 December 2019 \$'000
Spare parts and consumables	2,918	1,763
Crude oil	1,196	756
	<u>4,114</u>	<u>2,519</u>

Inventories recognised as an expense during the year amounted to \$886,000 (2019: \$756,000).

16. Provisions

	31 December 2020 \$'000	31 December 2019 \$'000
Decommissioning provision	1,917	276
Baseline oil liability	745	-
	<u>2,662</u>	<u>276</u>

	31 December 2020 \$'000	31 December 2019 \$'000
At 1 January	276	-
Decommissioning provision arising from the acquisition	1,562	-
Additional decommissioning provision in the year/period	79	276
Baseline oil liability arising from the acquisition	654	-
Additional baseline oil liability provided in the year	91	-
At 31 December	<u>2,662</u>	<u>276</u>

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 arises from the acquisition of BRL during the year. Under the production sharing contract for Block XI⁸, 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 2020, BRL owed 2,534.5 tonnes of baseline oil with a present value of \$745,000 to the State of Georgia.

17. Trade and other receivables

	31 December 2020 \$'000	31 December 2019 \$'000
Other receivables	2,196	166
Prepayments	60	137
	<u>2,256</u>	<u>303</u>

As at 31 December 2020, other receivables includes 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 (see note 12).

Block Energy Plc

Notes forming part of the Consolidated Financial Statements (continued)

18. Cash and cash equivalents

	31 December 2020 \$'000	31 December 2019 \$'000
Cash and cash equivalents	6,331	6,494

Cash and cash equivalents consist of balances in bank accounts used for normal operational activities. The vast majority of the cash was held in an institution with a Standard & Poor's credit rating of A-1.

19. Non-cash transactions

See note 21 for all non-cash transactions.

20. Trade and Other Payables

	31 December 2020 \$'000	31 December 2019 \$'000
Trade and other payables	989	1,066
Accruals	667	77
	<u>1,656</u>	<u>1,143</u>

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

21. Share capital

Called up, allotted, issued and fully paid	No. Ordinary Shares	No. Deferred Shares	Nominal Value \$
As at 1 July 2018	259,047,601	2,095,165,355	2,192,028
Issue of equity on 4 March 2019	1,846,791	-	6,045
Issue of equity on 13 March 2019	9,550,000	-	31,654
Issue of equity on 15 April 2019	1,837,500	-	5,941
Issue of equity on 1 May 2019	3,624,326	-	11,783
Issue of equity on 15 May 2019	225,000	-	715
Issue of equity on 21 May 2019	42,820,000	-	135,405
Issue of equity on 23 May 2019	1,723,650	-	5,434
Issue of equity on 4 June 2019	66,270,000	-	210,175
Issue of equity on 15 June 2019	1,469,125	-	4,672
Issue of equity on 13 June 2019	650,674	-	2,052
Issue of equity on 5 July 2019	375,000	-	1,174
Issue of equity on 15 July 2019	4,098,995	-	12,858
Issue of equity on 19 December 2019	900,000	-	2,930
As at 31 December 2019	<u>394,438,662</u>	<u>2,095,165,355</u>	<u>2,622,866</u>
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	<u>614,542,093</u>	<u>2,095,165,355</u>	<u>3,352,509</u>

Block Energy Plc

Notes forming part of the Consolidated Financial Statements(continued)

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.

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.

22. Share premium account

	\$'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
	\$'000
Balance at 1 July 2018	12,221
Premium arising on issue of equity shares	16,655
Share issue costs	(891)
Balance at 31 December 2019	27,985

Block Energy Plc

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

23. 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 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.

24. Warrants

	Number of Warrants	31 December 2020 weighted average exercise price	Number of Warrants	31 December 2019 weighted average exercise price
Outstanding at the beginning of the period	8,070,335	10p	11,142,115	6p
Additions	8,750,167	3p	6,011,308	11p
Exercised	-	-	(7,612,500)	4p
Lapsed	-	-	(1,470,588)	15p
Outstanding at the end of the period	16,820,502	6p	8,070,335	10p

As at 31 December 2020, all warrants were available to exercise and were exercisable at prices between 3p and 11p (31 December 2019: 4p and 11p). The weighted average life of the warrants is 3.6 years (31 December 2019: 3.2 years). The additions during the period represent warrants issued with 5 year terms (2019: 3 years). The fair value of additions during the period was \$376,000 (2019: \$500,000).

25. 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 \$641,000 for the year ended 31 December 2020. The equivalent charge for the 18 months period ended 31 December 2019 was \$862,000.

Block Energy Plc

Notes forming part of the Consolidated Financial Statements(continued)

The Group recognised total expenses (all of which related to equity settled share-based payment transactions) under the current plans of:

	2020 \$'000	2019 \$'000
Share option scheme	460	660
Warrants charge	181	202
	<u>641</u>	<u>862</u>

Share Option Scheme

The Option Plan provides for an exercise price equal to or higher than the closing market price of the Group shares on the date of the grant. The vesting period varies between 66 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.

	2020 Options	2020 Weighted average exercise price	2019 Options	2019 Weighted average exercise price
Outstanding at beginning of year/period	27,437,856	\$0.07	23,698,332	\$0.05
Granted during the year	9,230,112	\$0.00	6,325,000	\$0.15
Exercised during the year	(1,997,622)	\$0.03	(1,723,650)	\$0.05
Expired during the year	(3,331,633)	\$0.06	(861,826)	\$0.05
Outstanding at the end of the year/period	31,338,713	\$0.01	27,437,856	\$0.07
Exercisable at the end of the year/period	30,040,857	\$0.01	12,494,603	\$0.04

The weighted average exercise price of the share options exercisable at 31 December 2020 is \$0.01 (31 December 2019: \$0.04). The weighted average contractual life of the share based payments outstanding at 31 December 2020 is 3.6 years (31 December 2019: 8.5 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%

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.

Block Energy Plc

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

26. Borrowings

	31 December 2020 \$'000	31 December 2019 \$'000
Short term loans – unsecured	-	-
	-	-

All loans are denominated in pounds sterling and presented in US dollars.

As at 1 July 2018 there was a current loan balance of \$59,000. The interest was payable annually at the rate of 20%. During the prior period, the Company reached a settlement agreement on the loan for an amount of £20,000 (\$27,000), through the issue of 500,000 at £0.04p, resulting in a gain on settlement of loan of £24,550 (\$32,000) being recorded in finance income.

Movement in borrowings is analysed as follows:

	2020 \$'000	2019 \$'000
At beginning of year/period	-	59
Settlement of loan through issue of shares	-	(27)
Gain on settlement of loan recorded through SOCI	-	(32)
At end of year/period	-	-

27. 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 \$6,331,000 (2019: \$6,494,000). 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 \$628,577 (2019: \$140,000 increase) in the profit after tax of the Group for the year ended 31 December 2020, with a 10% weakening causing an equal and opposite decrease. The impact on equity is the same as the impact on profit 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 2020, 90% of the Group's cash and cash equivalents and liquid investments were held in pounds sterling, 9% in Georgian Lari and the remainder in US dollars, Euros and Canadian dollars (31 December 2019: 76% in US dollars).

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)

28. Categories of financial instruments

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

	31 December 2020 \$'000	31 December 2019 \$'000
Liabilities at amortised cost	1,656	1,143
	<u>1,656</u>	<u>1,143</u>
Cash and cash equivalents at amortised cost	6,331	6,494
Financial assets at amortised cost	2,196	166
	<u>8,527</u>	<u>6,660</u>

No collateral has been pledged in relation thereto.

29. Subsidiaries

At 31 December 2020, 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 2020	Proportion of voting rights and equity interest 2019
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%	-
Ensign Resources Limited**	Isle of Man	-	100%

*The company was acquired on 23 November 2020.

**The company was liquidated during the year.

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.

Ensign Resources is dormant, but held the Antubia Ltd company and associated Ghanaian mining asset until February 2018.

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.

The registered office of Ensign Resources Limited is Falcon Cliff, Palace Road, Douglas, Isle of Man, IM2 4LB.

Block Energy Plc

Notes forming part of the Consolidated Financial Statements(continued)

30. 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 2020 and 31 December 2019, the total of future minimum lease payments under non-cancellable operating leases for each of the following periods was:

	31 December 2020 \$'000	31 December 2019 \$'000
Within 1 year		37
Between 1 and 5 years	-	-
Total		37

31. 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.

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).

In the prior year, on 5 June 2019, the Company issued 1,091,291 Ordinary Shares as payment of deferred consideration per the Taoudeni Resources Limited share purchase agreement (details of which were set out in the Company's AIM Admission Document dated 4 June 2018). 977,383 of these Ordinary Shares were allotted to Plutus Strategies Limited, a company in which Paul Haywood, Chief Executive, and Niall Tomlinson, former Executive Director, have an interest. The agreement to issue these shares was completed on 3 March 2016 at a time when the Company's share price (adjusted for subsequent share consolidations) was 15p.

As a result of the issues on 5 June 2019 of 163,418 Ordinary Shares to Philip Dimmock and 69,957 Ordinary Shares to Chris Brown, UK income tax and employee's National Insurance contributions were payable. The Company paid these liabilities of \$10,000 for Philip Dimmock and \$3,000 for Chris Brown to the tax collector during September 2019 and this effectively formed a loan to the two directors. Both directors had repaid the loans in full by 31 December 2019.

During the prior period, the Company registered as an employer in Canada and Canadian income tax and employee's social security were payable. In December 2019, the Company paid these liabilities of \$77,000 for Roger McMechan to the tax collector and this effectively formed a loan to the director. This loan was fully repaid to the Company on 3 June 2020 by offsetting it against the payment in lieu of notice payable pursuant to the termination of his employment.

32. Events occurring after year end

On 15 February 2021, the Company commenced its first gas sales from its West Rustavi field.

Block Energy Plc

Parent Company Statement of Financial Position At 31 December 2020

Company number: 05356303

	Note	2020 \$'000	2019 \$'000
Non- current assets			
Investments	4	7,027	1
Property, plant and equipment	5	8	11
		<u>7,035</u>	<u>12</u>
Current assets			
Trade and other receivables	6	22,816	16,888
Cash and cash equivalents	7	5,657	5,865
Total current assets		<u>28,473</u>	<u>22,753</u>
Total assets		<u>35,508</u>	<u>22,765</u>
Capital and reserves attributable to equity shareholders			
Share capital	9	3,336	2,623
Share premium		34,234	27,985
Other reserves		9,121	1,115
Foreign exchange reserve		449	400
Accumulated deficit		(12,711)	(9,620)
Total equity		<u>34,429</u>	<u>22,503</u>
Current liabilities			
Trade and other payables	10	1,079	262
Total current liabilities		<u>1,079</u>	<u>262</u>
Total equity and liabilities		<u>35,508</u>	<u>22,765</u>

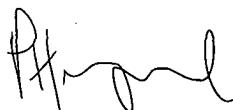
The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 by choosing not to present its individual Statement of Comprehensive Income and related notes that form part of these approved financial statements.

The Company's loss for the period from continuing and discontinued operations is \$3,091,000 (2019: loss of \$4,008,000).

The financial statements were approved by the Board of Directors and authorised for issue on 1 June 2021 and were signed on its behalf by:



William McAvoek
Director



Paul Haywood
Director

The notes on pages 81 to 86 form part of these financial statements.

Block Energy Plc

Parent Company Statement of Changes in Equity At 31 December 2020

	Share capital \$'000	Share premium \$'000	Accumulated deficit \$'000	Other reserve \$'000	Foreign currency reserve \$'000	Total equity \$'000
Balance at 30 June 2018 – restated and unaudited	2,192	12,221	(5,819)	460	(75)	8,979
<i>Comprehensive income</i>						
Loss for the 18 months period	-	-	(4,008)	-	-	(4,008)
Exchange differences on translation of foreign operations	-	-	-	-	475	475
Total comprehensive income for the 18 months period	-	-	(4,008)	-	475	(3,533)
<i>Transactions with owners recognised directly in equity</i>						
Shares issued	414	16,655	-	-	-	17,069
Cost of issue	-	(891)	-	-	-	(891)
Share based payments	-	-	207	655	-	862
<i>Total transactions with owners</i>	<i>414</i>	<i>15,764</i>	<i>207</i>	<i>655</i>	<i>-</i>	<i>17,040</i>
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
Total comprehensive income for the year	-	-	(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

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Parent Company Statement of Cashflows for the year ended 31 December 2020

	Note	2020 \$'000	2019 \$'000
Cash flow from operating activities			
Loss for the period before income tax		(3,091)	(4,008)
<i>Adjustments for:</i>			
Depreciation		5	-
Finance income		(15)	(180)
Finance expense		-	3
Share based payments expense	2	725	862
Foreign exchange movement		29	549
Operating cash flows before movements in working capital		(2,347)	(2,774)
(Increase) in trade and other receivables	6	(14)	(23)
Increase in trade and other payables	10	922	14
Net cash used in operating activities		(1,439)	(2,783)
Cash flow from investing activities			
Finance income		15	37
Expenditure in respect of property, plant and equipment		(1)	(14)
Inter-Group amounts (drawn down)		(4,136)	(11,828)
Net cash used in investing activities		(4,122)	(11,805)
Cash flow from financing activities			
Proceeds from issue of ordinary share capital		5,737	16,086
Costs related to issue of ordinary share capital		(405)	(891)
Net cash inflow from financing activities		5,332	15,195
Net (decrease)/increase in cash and cash equivalents in the year/period		(229)	607
Cash and cash equivalents at start of year/period		5,865	5,274
Effects of foreign exchange		21	(16)
Cash and cash equivalents at end of year/period	7	5,657	5,865

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 International Financial Reporting Standards (IFRS) and IFRIC interpretations issued by the International Accounting Standards Board (IASB) 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 13 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 well at WR-BA location and, by the end of the year, plans to drill a second well and spud a third well. 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 June 2022. 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 June 2022. The Company's forecasts are considered together with the Group's forecasts.

The directors note that Covid-19 has had a significant negative impact on the global economy and oil prices, which may mean it is harder to secure additional funding than it has historically been. As part of their going concern assessment, a reverse stress test has been performed, based on the scenario whereby, due to Covid-19 restrictions, if the Group were unable to continue with normal operations or were required to significantly reduce the forecasted production due to the capital expenditure not being incurred to complete the additional wells, a cash shortfall may occur. The global pandemic may also bring practical challenges to the timetables for drilling the wells and the consequent sale of oil and gas from those wells. The directors are confident that current capital projects are funded and have a reasonable expectation that they could secure additional funding, if needed, to fund additional capital projects. However, these conditions necessarily indicate that a material uncertainty exists that may cast significant doubt over the Group and Company's ability to continue as a going concern and therefore their ability to realise their assets and discharge their liabilities in the normal course of business. 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 2020

2. Employees

	Year ended 31 December 2020 \$'000	18 months period ended 31 December 2019 \$'000
Employment costs consist of:		
Wages and salaries	1,022	1,222
Pension	147	251
Share based payments	641	862
Social security costs	48	108
	1,858	2,443

The average monthly number of employees during the period was 9 (2019: 8) split as follows:

	Year ended 31 December 2020 \$'000	18 months period ended 31 December 2019 \$'000
Management	5	5
Technical	3	2
Administration	1	1
	9	8

3. Directors' Emoluments

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

4. Investments

Shares in Group undertakings	2020
Balance at 1 January	\$'000
Additions in year – acquisition of BRL	1
FX movement on translation of assets	6,821
Balance at 31 December	205
	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 2020, the carrying amount of the Company's net assets of \$35,508,000 exceeded the Group's net assets of \$34,012,000. 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 2020	13	1	14
Additions	2	-	2
At 31 December 2020	15	1	16
<i>Depreciation</i>			
At 1 January 2020	(3)	-	(3)
Depreciation charge	(5)	-	(5)
At 31 December 2020	(8)	-	(8)
<i>Carrying amount</i>			
At 1 January 2020	10	1	11
At 31 December 2020	7	1	8

6. Trade and other receivables

	2020 \$'000	2019 \$'000
Prepayments	47	22
Other receivables	1,862	139
Amounts due from Group undertakings	20,907	16,727
	22,816	16,888

All of the above amounts are due within one year.

Other receivables includes 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 interest free and repayable on demand.

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 \$504,000 has been provided for in the parent Company financial statements during 2019. The directors estimated that no further increase in this allowance was required in 2020.

7. Cash at bank

	2020 \$'000	2019 \$'000
Cash and cash equivalents	5,657	5,865

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 2020, 99.9% of the cash balances held by the Company were held in pounds sterling.

Block Energy Plc

Notes to Parent Company Financial Statements For the year ended 31 December 2020

8. Non – cash transactions

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

9. Share capital

Details of share capital and movements in the period are set out in note 21 to the consolidated financial statements.

10. Trade and other payables

	2020 \$'000	2019 \$'000
Trade and other payables	413	195
Accruals	666	67
	<u>1,079</u>	<u>262</u>

Trade and other payables at 31 December 2020 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 2020 \$'000	31 December 2019 \$'000
Trade and other payables	1,079	262
Total financial liabilities at amortised cost	<u>1,079</u>	<u>262</u>

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 2020 \$'000	31 December 2019 \$'000
Other receivables	1,862	139
Amounts due from Group undertakings	20,907	16,727
Cash and cash equivalents at amortised cost	5,657	5,865
Total financial assets at amortised cost	<u>28,426</u>	<u>22,731</u>

The amounts due from Group undertakings includes a loss allowance of \$504,000 (2019: \$504,000). The loans are repayable on demand and are interest-free. 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 27 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 \$5,657,000 (2019: \$5,865,000). The Company does not hold any collateral as security.

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 has been calculated and a loss allowance of \$504,000 has been provided for in the parent Company financial statements. The directors estimated that no further increase in this allowance was required in 2020.

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 2020, 99% 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 \$514,000.

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 27 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:

	2020 \$'000	2019 \$'000
Within 1 year		37
Between 1 and 5 years	-	-
Total	-	37

Block Energy Plc

Notes to Parent Company Financial Statements For the year ended 31 December 2020

14. Related party transactions

At 31 December 2020, the following subsidiaries owed the parent Company for payments made and recovered on their behalf.

- Block Norioskhevi Ltd – \$3,703,000 (31 December 2019: \$3,432,000)
- Georgia New Ventures Inc – \$15,115,000 (31 December 2019: \$12,503,000)
- Satskhenisi Ltd – \$668,000 (31 December 2019: \$1,116,000)
- Block Operating Company LLC – \$1,142,000 (31 December 2019: \$182,000)
- Block Rustaveli Limited - \$261,000

A total loss allowance of \$504,000 (2019: \$504,000) was recognised in relation to the loan to Satskhenisi Ltd. Further detail on related party transactions can be found in note 31 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 29 – Subsidiaries

Note 32 – Events occurring after the year end

Note 25 – Share-based payments

Note 6 – Auditors' remuneration