



BLOCK
ENERGY PLC

Annual Report and Financial Statements
Year Ended
30 June 2018



Contents

Strategic report

- 2 Officers and Advisors
- 3 2018 Highlights
- 4 Strategy and business model
- 5 Chairman's Statement
- 6 Chief Executive Officer's statement
- 8 Finance Director's statement
- 10 Technical Director's statement
- 12 Principal risks and uncertainties
- 17 Statement of Social Responsibility
- 18 Board of Directors

Report of the Directors

- 19 Report of the Directors

Governance Report

- 20 Corporate Governance Statement
- 30 Statement of Director's Responsibilities
- 31 Remuneration Report
- 34 Independent Auditor's Report to the members of Block Energy Plc

Financial Statements – Group company financial statements

- 39 Consolidated Statement of Comprehensive Income
- 40 Consolidated Statement of Financial Position
- 41 Consolidated Statement of Changes in Equity
- 42 Consolidated Statement of Cashflows
- 43 Notes to the Consolidated Financial Statements

Financial Statements – Parent company financial statements

- 63 Parent Company Statement of Financial Position
- 64 Parent Company Statement of Changes in Equity
- 65 Parent Company Statement of Cashflows
- 66 Notes to the Parent Company Financial Statements

Officers and Advisors

Directors

Paul Haywood	Chief Executive Officer
Roger McMechan	Technical Director (appointed 11 June 2018)
Serina Bierer	Financial Director (appointed 11 June 2018)
Niall Tomlinson	Executive Director
Philip Dimmock	Chairman – Non-Executive (appointed 11 June 2018)
Timothy Parson	Director – Non-Executive (resigned 3 October 2018)
Christopher Brown	Director – Non-Executive (appointed 3 October 2018)

UK Office

9 Devonshire Square
 London, EC2M 4YF
 UK registration: 05356303
www.blockenergy.co.uk

Company Secretary and Registered Office

Ben Harber
 60 Gracechurch Street
 London
 EC3V 0HR

Block Energy Plc is listed on AIM (Symbol BLOE)

Joint Brokers

Novum Securities Limited
 10 Grosvenor Gardens
 London
 SW1W 0DH

Baden Hill LLP
 4 Lombard Street
 London
 EC3V 9HD

NOMAD

Spark Advisory Partners Limited
 5 St John's Lane
 London
 EC1M 4BH

Auditor

BDO LLP
 55 Baker street
 London
 W1U 7EU

Registrars

Share Registrars Limited
 Suite E, First Floor
 9 Lion and Lamb Yard
 Farnham
 Surrey, GU9 7LL

Bankers

Barclays Bank Plc
 10 Berkeley Square
 Mayfair
 London W1J 6AA

Public Relations

St Brides Partners Limited
 3 St Michael's Avenue
 London
 EC3V 9DS

2018 Highlights

AIM Listing

- Block Energy Plc listed on the Alternative Investments Market (AIM) on 11 June 2018 in conjunction with a placing of £5 million (before expenses), issuing 125,000,000 at 4p per ordinary share.

Acquisition and business growth

- The Group continued to grow its portfolio of oil and gas assets in Georgia
- Acquired a 100% interest in Satskhenisi Ltd and a 90% interest in the Satskhenisi Production Sharing Contract (PSC) for a consideration of £595,000 through the issue of 70,000,000 Block Energy Plc shares.
- Increased the interest in the Norio PSC from 38% to 100% through a £481,000 cash consideration and issue of 4,695,717 Block Energy Plc shares (£188,000) on listing. Total consideration for Block's 100% interest in the Norio PSC was £1,206,000, which, when compared to the P50 NPV valuation of £22,340,000 provided by the Competent Persons Report, illustrates the considerable upside in this asset.
- Increased the 5% interest in West Rustavi PSC to 25% through a cash consideration payment of £377,000, and issue of 18,782,870 Block Ordinary shares with a value £751,000 on listing.
- At year end, Block Energy holds three operating licences - Norio (100% WI), Satskhenisi (90% WI) and West Rustavi (25% WI).
- Intangible asset additions of £1,335,000, and Plant Property and Equipment additions of £839,000.
- Asheba Asset Sale and Purchase Agreement finalised for a total £454,000 cash consideration payment.
- Cash at year end £3,997,000 (2017: £215,000).

Operations

- Group continues to produce approximately 15 bopd of oil from the legacy assets.
- Prices received for our oil have improved as the world price for crude oil has strengthened during the year.
- The Group maintains a strong focus on assuring Health, Safety and Environmental (HSE) management.



Strategy and business model

The Company's strategy is focused on becoming one of the largest independent oil and gas companies in Georgia. It plans to build a portfolio of low cost, high impact development assets in a proven region of the Republic, and to scale up existing production and reserves via the implementation of low-cost work programmes. The Company currently holds a 25% Working Interest (WI) in the West Rustavi PSC and intends to exercise its options to acquire an additional 50% working interest by executing a defined development programme.

The Company may in future consider farm-out agreements with third parties at project level as a means of funding future capital expenditure, though at the present time, no such agreements are in contemplation.

The current phase I of the work programme involves scaling up existing oil production via a low-cost programme of workovers, recompletions and side-tracks of existing wells as follows:

- At Norio, the re-completion and workover of existing wells will involve cleaning out the casing and logging with modern tools and replacing the pumps, and, where indicated by the logs, re-perforating with specialised technologies.
- For the West Rustavi Block undertake horizontal or highly deviated side-tracks from two existing wells, targeting the Middle Eocene oil reservoir. This has produced approximately 200 MMbbls within 20km of the West Rustavi permit. Furthermore, drilling these wells will fulfil the Company's agreed expenditure under the West Rustavi Sale and Purchase Agreement and thereby increase its working interest to 75%.
- The gas potential of the Lower Eocene and Upper Cretaceous are key opportunities for the Company. The independent CPR estimates that there are 2C resources of 456 BCF net to Block Energy (608 BCF gross), assuming the Company completes the full earn-in programme. Current gas prices in Georgia are over US \$5/MCF providing the Company with the commercial incentive to aggressively pursue a gas development strategy. The Company plans to re-enter at least one of the wells to test the Lower Eocene gas reservoir. This testing programme will be designed to obtain critical reservoir data regarding reserve size, well productivity and optimal completion design.

Assuming even modestly successful results from the re-entry in the Lower Eocene gas reservoir, the Company intends to commence the Phase II work programme by acquiring a 3D seismic survey that will delineate the gas and oil potential of the West Rustavi permit and provide essential information for future drilling locations. Once the 3D seismic survey has been interpreted and analysed, it is intended that horizontal wells will be drilled to further delineate the Middle Eocene oil and Lower Eocene/Upper Cretaceous gas reservoirs with the ambition of increasing the permit's gross oil production to over 2,000 bopd and of providing sufficient evidence of gas reserves to secure gas sales contracts with already identified off-takers.

On the assumption that the gas reserves are sufficiently defined to enter gas sales contracts and that oil production from the Middle Eocene reservoir can provide continuous material cash flow, the Company intends to build the first module of a gas processing and sales facility. Additional gas production wells would then be drilled to supply the local market. Oil production will be enhanced through further drilling of the Middle Eocene oil reservoir leading into further field development by the drilling of the Upper Eocene conventional/unconventional over-pressured light oil reservoir. This has estimated 2C gross contingent resources of over 12 MMbbls light oil and 3.9 BCF of sweet gas.

The Directors also continue to review opportunities to grow the Company through acquisition, particularly within the immediate region and other European jurisdictions with comparably low risk profiles. However, no negotiation to enter into such an acquisition has yet been initiated by the Company.

The Company disposed of its legacy Ghanaian gold exploration asset the Asheba Licence in the reporting period. The disposal was part of the strategy to transform from a gold focused mineral exploration company to an oil and gas production & development company.

Chairman's Statement

Block Energy joined AIM this year with an oversubscribed fund raise of £5 million, indicative of our core strengths: a set of producing or previously producing licences in business-friendly Georgia; a robust strategy to surpass breakeven production in the near-term; and management, technical and operations teams with deep experience of the oil and gas sector across the region and beyond.

During the financial year the Company added the Satskhenisi licence, with a 90% WI, to its portfolio of Georgian assets, which, at the start of the period, comprised Norio (38%) and West Rustavi (5%). Block went on to increase its WI in Norio to 69% and then 100%, and in West Rustavi to 25%. The Sale and Purchase Agreement for West Rustavi gives the Company options to earn progressively into WI's of 50% and 75%. The Production Sharing Contract (PSC) is valid for an initial term of 25 years and became effective from 1 September 2018. The Company firmly intends to increase its WI in the PSC to 75%.

Our asset base provides a solid foundation for your Company to realise its ambition of becoming a leading independent oil and gas producer. Our three licences, located in a prolific hydrocarbon region, contain significant proven and contingent resources. Since our IPO in June, we have been working day-by-day, week-by-week to execute our strategy for unlocking the full value of our assets. We have:

- Assembled an experienced technical, operations and administrative team in Georgia and London.
- Established a rigorous Health, Safety and Environment (HSE) Plan that includes the full upgrade of the facilities we inherited from previous operators.
- Secured the rigs and equipment necessary to implement our work programme at much lower rates than anticipated.
- Identified a specialist perforation tool that our research indicates will be particularly well suited for use in our fields and allow significantly higher flow rates.
- Commenced an eight well workover programme and a sidetrack on our Norio licence, aiming to increase production at the field from 10 to 150 bopd by the close of 2019.
- Developed a programme to drill horizontal sidetracks and test a legacy gas discovery in our West Rustavi licence, a discovery lying on the same play being targeted by Schlumberger on neighbouring fields.

In early October 2018, Timothy Parson retired from the Board to fully dedicate himself to his interests in deepwater drilling. Our thanks are due to him for his contributions to the formulation of the work programme and to the preparations for our AIM listing. We wish him well with his future endeavours. Timothy's place as an independent non-executive director was taken by Christopher Brown. We welcome Christopher to the Board and the Company. We are already benefitting from his considerable knowledge and experience of managing the discovery, evaluation and development of oil and gas fields.

We look forward to welcoming you to our AGM on the 20 December 2018, during which, we will be addressing in addition to ordinary business, special business resolutions to grant power to the Directors to allot shares and apply pre-emption rights. This is to give the Company the flexibility to conduct business growth efficiently.

We have strong fundamentals, are implementing our programme and are confident the market will recognise our inherent value, robust balance sheet and re-rating potential. I would like to thank all our team for their focus and hard work. We look forward to updating shareholders with a strong flow of news through the busy weeks and months to come.



Philip Dimmock
Chairman

Chief Executive Officer's statement

Rapid Progress

Block Energy is an asset backed, revenue generative oil and gas company with a defined development path designed to unlock near term significant value for shareholders. Asset backed, thanks to our three licences in Georgia which, according to our January 2018 Competent Person's Report (CPR) written by Gustavson Associates, hold 2P gross oil reserves of 2.5 MMbbl with an NPV10 of US \$39.3 million, gross contingent oil resources (2C) of 72.9 MMbbls of oil and 626 BCF of gas. Revenue generative, due to existing production of 15 bopd through our Norio and Satskhenisi licences which, at current oil prices, cover our operational expenses at the field level. Fully funded, following our AIM admission and concurrent £5 million raise in June 2018, allowing us to rapidly scale up production through the roll-out of low-cost work programmes across our asset base.

Block has come a long way in a short time. Over the last 18 months, we have secured a strategic licence position in the prolific Kura basin. Our licences are situated in the heart of a region equipped with an established infrastructure that has produced more than 90% of Georgia's oil to date, and, directly to the south of Schlumberger's 100%-held Block XIb, which has produced 210 MMbbls of oil at rates of up 70,000 bopd.

Block holds 100% and 90% WIs in the Norio and Satskhenisi fields respectively, and a 25% WI in the West Rustavi licence as part of an agreed earn-in to increase to 75%. All three licences are current or historical producers of light sweet crude oil. West Rustavi has additional potential oil and gas resources of a company-making magnitude. We are implementing a dual-focus strategy to realise the full promise of our assets: we will significantly increase existing production in the near term through low cost workover and side-track drilling programmes, while simultaneously testing West Rustavi's substantial gas resources. A successful test will upgrade a substantial proportion of the Company's contingent gas resources to the reserve category, allowing us to finalise the gas offtake agreement, executed with domestic gas purchaser Bargo, and implement an advanced gas development strategy. Our work programmes are designed to pursue both objectives concurrently. At present the company is prioritising work in its other licences. However, a plan of 3 re-entries and reactivations to enhance oil production in the Satskhenisi licence are planned for the next phase of work.

Commencing our Work Programme

Following our negotiation of a contract to lease drilling and workover rigs and equipment at much lower rates than foreseen at the time of our IPO, we are implementing an eight well workover programme at Norio and will begin drilling at West Rustavi once rig inspections have been completed. The programme commenced in October. An A50 rig is being used to clean out and log the wells before a specialist perforation tool, imported from North America and selected to bypass any damage caused by historic heavy mud drilling, will be applied to each well. The technology replaces conventional shaped charge perforation with a micro drilling tool capable of cutting horizontal drain holes at multiple levels. New or refurbished pumps will then be installed to bring the wells to production. Norio currently produces 10 bopd, so all of the infrastructure necessary to allow oil sales to commence immediately is already in place. Norio has multiple wells available for re-entry, and the Satskhenisi field, with 27 MMbbls 2C resources, offers further potential for the perforation tool to unlock.

This initial workover programme aims to rapidly scale Norio's production from 10 to 150 bopd. When we have completed these workovers, we will sidetrack one of the field's wells, an operation forecast to increase net production to 250 bopd, approximately three times the Company's break-even production rate. With crude oil from Norio selling at Brent minus US \$10/bbl, a production rate of 250 bopd would generate significant cashflows for reinvestment into further development activity across our asset base. For example, at a typical contemporary oil price of US \$75/bbl, a production rate in the region of 250 bopd would generate around US\$3.5 million in annual revenue, allowing us to recover our total development costs in less than a year.

Realising West Rustavi's Potential

We have also been preparing to begin work at West Rustavi following the Georgian government's approval of the PSC. This field offers multiple oil and gas bearing structures, several of which have historically produced or been positively tested. As our CPR notes, West Rustavi's 'Middle Eocene has proven production and the Lower Eocene and Upper Cretaceous have had good tests for gas and condensate.' Over the years, approximately 500,000 bbls of light sweet crude from the Middle Eocene have been recovered within or immediately adjacent to, the licence area, and gas wells on the Schlumberger held and operated Samgori and Teleti fields contiguous to the north of Block's permit have flowed at rates of over seven MMCF/d.

We plan two horizontal sidetracks at West Rustavi that are forecast to bring our total production (including Norio) to 900 bopd, at which point we would have increased our working interest in the field from 25% to 75%. We have identified four other West Rustavi wells that offer similar opportunities for re-entry and sidetracking. In addition to this work we will workover two of the field's other wells in order to test the potential of its Lower Eocene and Upper Cretaceous gas zones. As specified in the CPR, previous well tests achieved rates of up to 0.9 MMCF/d from the Lower Eocene and 1.6 MMCF/d from the Upper Cretaceous. If the testing demonstrates West Rustavi's capacity, we will swiftly finalise our field development plan and gas sales contracts and install production infrastructure.

The field promises to unlock great value for our shareholders. Assuming we have secured a 75% WI, we estimate the cost of gas development and production at West Rustavi at around US \$2.00 MCF, with operating netbacks of around US \$2.6 MCF. Georgia currently purchases its gas for approximately US \$5.5/Mcf, so with an estimated netback of US \$2.6 MCF, and a first phase of gas development producing gross 30 MMCF/D, the gas development project has the potential to deliver net annual cash flows of more than US\$20 million. We look forward to updating our stakeholders on our progress towards realising West Rustavi's great potential over the coming year.



Paul Haywood
Chief Executive Officer

Finance Director's statement

Block Energy Plc continues to make selective investments to build our production and development base whilst maintaining a strong balance sheet.

Balance sheet – acquisitions and asset growth

The Group's financial position has changed significantly over the past 12 months, with Group net assets increasing from a balance of £1,131,000 as at 30 June 2017 to £7,000,000 as at 30 June 2018. The Group's cash balance was £3,997,000 (2017: £215,000).

The Group expanded its portfolio and business during the period by investing in the 100% acquisition of Satskhenisi Ltd and 90% of the PSC with a £595,000 share consideration payment and US \$1,000 for the share capital of Satskhenisi Ltd. This transaction was classed as a business combination under the applicable accounting treatment.

In addition, Block Energy Plc increased its Norio PSC working interest from 38% to 100% through a US \$610,000 cash consideration payment, and a US \$250,000 share issue on AIM admission. The total consideration for Group's 100% interest in the Norio PSC to date was US \$1,560,000, which, compares well with the potential valuation indicated by the NPV of US \$29,500,000 at 10% discount estimated in the CPR.

Further execution of the business strategy saw the Company increase the 5% working interest in West Rustavi PSC to 25% through a cash consideration payment of US \$500,000, and the issue of 18,782,870 Block Ordinary shares with a value US \$1 million on AIM admission.

Group funds were supplemented through a successful £250,000 placing in August 2017, the issue of a £150,000 convertible loan note in December 2017 and sale of the Ghanaian Asheba legacy asset for US \$600,000 cash. The costs and profit on sale of the Ghanaian asset are categorised as 'discontinued operations' in the Income statement.

With regards to equity, a share consolidation exercise was undertaken on 15 November 2017. One new ordinary share of 0.25p replaced 5 shares of 0.05p. The effect was that the 489,841,048 existing ordinary shares consolidated into 97,968,209 new ordinary shares.

On 11 June 2018, the Group listed 258,547,601 shares on the Alternative Investments Market (AIM) trading under the AIM ticker 'BLOE'. On admission, the Company successfully raised £5 million before expenses through a placing and subscription of 125 million new ordinary shares at an issue price of 4p each.

Income statement

This is the Group's first year in which revenue has been recognised. Sale of oil produced from the legacy assets pre-investment in the Norio and Satskhenisi licence areas generated revenue of £133,000. 3,077 barrels of oil were sold with Brent crude oil price ranging from US \$62.3 to US \$79.4 per bbl.

The loss for the period was £1,233,000 as compared with a £281,000 loss in the prior year. The vast majority of this increase was due to costs associated with the AIM listing of £385,000, including costs relating to transaction advice, legal and financial diligence, and capital market advisory fees associated with the preparation of the AIM admission document and associated professional diligence. Administration costs showed an increase of £494,000. Other new costs attributable in the year include share option and warrants charge of £68,000.

The income statement is separated into continued and discontinued operations, the latter representing costs associated with the disposal of Antubia Limited and its Ghanaian asset.

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.

Principal risks and uncertainties

A detailed review of the potential risks and uncertainties which could impact the Group are outlined elsewhere in the Strategic Report. A comprehensive list of risks and uncertainties can be sourced from the AIM Admission document found on our website.

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 £1,233,000 (2017: loss of £281,000).

The Group has net assets of £6,967,000 (2017: net assets of £1,131,000).

The Directors do not recommend the payment of a dividend (2017: nil).



Serina Bierer
Finance Director

Technical Director's statement

Since our IPO we have established the building blocks necessary to start our work programme:

A Skilled and Experienced Team

We have assembled a skilled and experienced technical and operations team, including:

- A senior geologist with more than 12 years exploration and operations experience who is supporting a strong team of geoscientists located in Georgia.
- A completions and workover specialist with more than 35 years' experience of completions and workover operations in North America and beyond, including two years in Georgia.
- A drilling engineer with more than 35 years' experience encompassing the design and oversight of a successful Georgian horizontal wells programme.
- The contracting of the Norio Operating Company (NOC), an established Georgian operator whose expertise includes production operations, drilling and completions personnel for the rigs, transportation, logistics, purchasing, accounting and bookkeeping.

A Comprehensive HSE Plan

We have designed and are implementing a plan to ensure our HSE management meets international standards. In the half-year since we listed we have:

- Identified and hired two full time HSE Managers to monitor and oversee our operational activities through regular site inspections, safety meetings and risk assessment reviews.
- Equipped our team on the ground with first-class Personal Protective Equipment (PPE) including fire retardant coveralls and coats, proper hardhats, safety footwear, protective eyewear and gloves.
- Transformed legacy operator office cabins at our sites into comfortable and secure working environments with running water and functioning sanitation facilities.
- Renovated the production facilities we inherited at Norio through inspections, cleaning, repainting and reconstruction work, and installed an industry standard firefighting system for the oil storage and pumping facilities.
- Engaged an international rig inspection company to review the drilling and workover rigs we have contracted.

Cost-Effective Equipment and Services Contracts

We have contracted the equipment and services we need to carry out our programme:

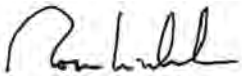
- On 21 September 2018 we signed a rig lease contract which provides exclusive, unlimited access to drilling and workover equipment suitable for our specific requirements, including a ZJ40 drilling rig (1260 horsepower) and two A50 workover rigs. The contract was secured for an upfront payment of US \$500,000 for a six-month term that triggers, once the Company mobilises the ZJ40 rig, with an option to extend the contract by 6 months for a further US \$250,000. The agreement makes available the equipment, tools and services we need at an exceptional value relative to the daily rates on offer in Georgia and the surrounding region, and gives us unfettered control over the implementation of our work programme.
- As mentioned in the Chief Executive Officer's statement, Block Energy has contracted a maximum perforation system, a specialised well completion service that our research indicates offers the ideal technology for realising the potential of our wells. The tool will allow us to navigate past damage caused to the wellbores by legacy drilling procedures, and to drill mini-horizontal drains from the wells, greatly enhancing opportunities for intersecting natural fractures existing in the formation of near-wellbore areas. This innovative technology promises to significantly enhance our prospects of realising the multi-zone potential of our Norio and Satskhenisi fields when it is deployed this December.
- On 1 October we engaged 'Pulse Neutron' cased hole logging services from a provider in neighbouring Azerbaijan to enable us to identify bypassed oil pay and undrained reservoirs at Norio. The logs left by the field's previous operator offer positive signals for this operation's success.

Norio and West Rustavi Workover Update

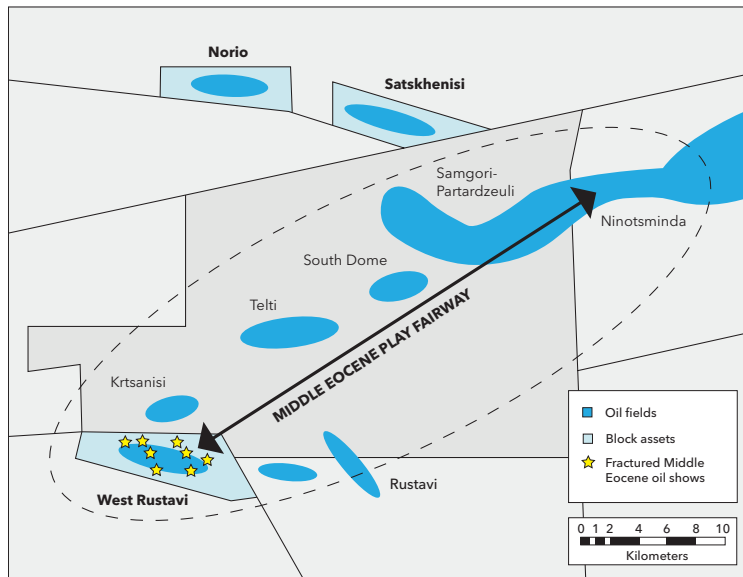
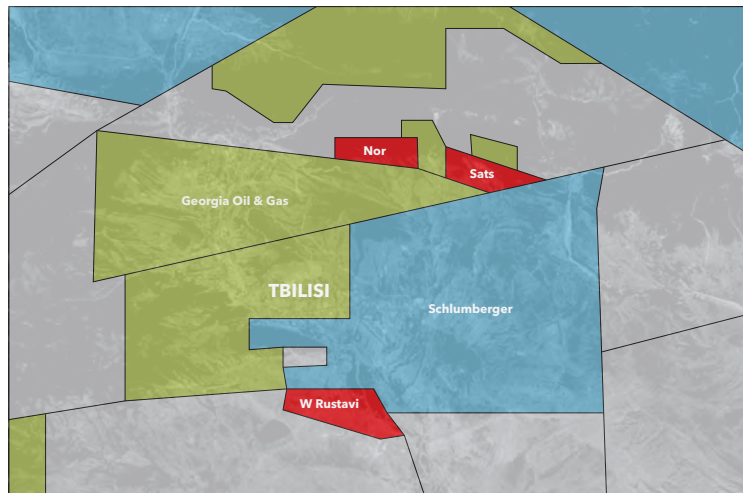
With our team, HSE Plan and capital in place, we began an eight well workover campaign at our Norio field in October, as described in the Chief Executive Officer's Business Review. At the time of writing we had contracted a Pulsed Neutron-Neutron (PNN) logging tool for the first workover. Results from the log are encouraging. We will be able to properly gauge its promise after the production results obtained through the application of the maximum perforation system, and the installation of bottomhole pumps. We are also currently completing civil works reconstruction to allow our West Rustavi operations to commence.

Satskhenisi

The Satskhenisi licence is currently on production with a daily production of approximately 5 bopd. A programme of 3 re-entries and reactivations are planned in Satskhenisi, though these will not be completed in the current phase of work which is prioritising the greater reserve accumulations in the Norio and West Rustavi licences. The Satskhenisi programme will consist of well re-entry, clear out of any junk left in the hole and installation of new or reconditioned bottomhole pumps and is intended to enhance the current production within the licence with minimal expenditure.



Roger McMechan
Technical Director



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 Group receives reports from the external auditors concerning the system of internal control and any material control weaknesses. 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
Strategic Risk:		
<ul style="list-style-type: none"> Regional tensions could have an adverse effect on the local economy and our business 	<p>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.</p>	<p>The Board monitors all political developments on an ongoing basis. This ensures swift reaction should it be required.</p>
<ul style="list-style-type: none"> Delay or inability to increase the West Rustavi PSC interest 	<p>This could reduce the Group's ability for value creation, lose investor confidence and potentially increase costs.</p>	<p>Active engagement with the state to establish trusted and constructive working relationships.</p>
Financial Risks:		
<ul style="list-style-type: none"> Currency exchange rate fluctuations may negatively affect Block Energy 	<p>The Group's consolidated financial statements are stated in British pounds sterling and certain ongoing management costs will be denominated in British pounds sterling. However, 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.</p>	<p>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 convert funds raised immediately to USD to fulfil operational work plans, and to place money market orders in order to take advantage of favourable currency fluctuations.</p>

Description	Impact	Mitigation
Financial Risks: continued		
<ul style="list-style-type: none"> Substantial capital requirements and access to funding 	<p>The Company is using the AIM Placing and Subscription proceeds, together with cash generated from operations, to fulfil at least the minimum requirements stipulated by the Share Purchase Agreements entered into by the Company in relation to its Georgian assets. 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 or to raise debt or equity funding during that period to be able to finance these costs. If the Company's revenues or 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 expenditures 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, 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 dedicate existing cash balances or cash flows, 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 will mean fewer projects generating less prod/cash flow and fewer capital resources to grow the company.</p>	<p>Negotiate lump sum pricing for services where ever possible to limit cost overruns. Also, explore multiple sources for materials and services to gain the most competitive pricing for suitable products and services.</p>

Description	Impact	Mitigation
Operational Risk:		
<ul style="list-style-type: none"> Poor production performance 	Less cash flow than forecast from operations.	Portfolio of multiple projects with varying risk, capital and production profiles – spreading the risk across our permits
<ul style="list-style-type: none"> Permits, licences and leases 	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 negative effect of the Company's operations.	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.
<ul style="list-style-type: none"> The Company's proposed development plans are subject to several operational risks 	Both the drilling and workover programmes proposed 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.	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, NOC has overseen the drilling of a number of wells in Georgia.
HSE Risk:		
<ul style="list-style-type: none"> Accident and Incidents associated with operations 	Serious accidents can result in shut down of operational sites and loss of credible operator reputation/license.	Frequent inspections of operations by HSE staff, initiation of personnel safety training, daily worksite safety meetings, improved operating equipment and assignment of proper personal protection equipment to all field worksite personnel.

Description	Impact	Mitigation
HSE Risk: continued		
<ul style="list-style-type: none"> Environmental contamination caused by oil and water spills 	<p>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.</p>	<p>Repair and upgrading of production facilities at Norio and eventually at Satskhenisi to reduce the risk of spills due to equipment failure.</p> <p>Improved operating procedures through training of operations personnel to avoid the spill situations.</p>
Organisational Risk:		
<ul style="list-style-type: none"> Dependence on key relationships including, inter alia, the State, Georgian Oil and GOG 	<p>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 and Georgian Oil are counterparties to the Satskhenisi PSC and the West Rustavi PSC whereas GOG is a co-contractor to Block Energy in Satskhenisi, and also will be in West Rustavi. Accordingly, if the State, the Agency and/or GOG are not able to co-operate with each other or the Company, it could have an adverse impact on the business, operations and prospects of the Group.</p>	<p>Management maintains regular communication with the State, Georgian Oil and GOG.</p>
<ul style="list-style-type: none"> Dependence on key executives and personnel, employee retention and recruitment 	<p>Block Energy has a comparatively small number of current and proposed employees. The future success of the Group depends partially on the expertise of the Directors. The loss of key personnel, and the inability to recruit further key personnel could have a material adverse effect on the Group's future by impairing the day to day running of the Group and its ability to exploit the opportunities open to it. An inability to attract or retain additional key personnel could have a material adverse effect on the Group's business and trading results. In addition, the loss of the services of the executive directors or other key employees could damage the Group's business.</p>	<p>Executive Directors have notice periods of no less than 12 months to ensure sufficient time to handover responsibilities in the event of a departure.</p> <p>The Remuneration committee regularly evaluates compensation and incentivisation schemes to ensure they remain competitive.</p>

Key performance indicators

The board has introduced the following key performance indicators (KPI's):

1. Dispose of all the Company's legacy mineral exploration assets.
This KPI was successfully attained with both the Asheba gold project and the Taoudeni copper project disposed of in the year.
2. Increase the Company's interest in the Norio licence to 100%.
This KPI was successfully attained within the period.
3. Make first oil sale and become revenue generative.
This KPI was successfully attained and the Company has received revenues from oil sales totalling £133,000 in the year.
4. Acquire additional oil and gas assets in Georgia.
This KPI was successfully attained, the Company acquired interests in both the Satskhenisi licence and West Rustavi Licence in the year.
5. List the Company's equity on AIM.
The Company successfully fulfilled this KPI on 11 June 2018.

The strategic report was approved by the Directors and signed on behalf of the Board on 21 November 2018.



Paul Haywood
Chief Executive Officer
21 November 2018

Statement of Social Responsibility

Block Energy Plc believes in a practical and open approach to its Corporate and Social Responsibility (CSR). Our CSR programme is focused on doing the right thing, as well as managing risk, and investing sustainably in the community in which we operate. Our investment decisions carefully take into account environmental and social impacts and how such impacts are best managed for all stakeholders. Our operations should not compromise the wellbeing of current or future generations. This responsible behaviour is a key 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, respecting fully the rule of law and human rights
- Contributing to the development goals of Georgia
- Integrating sustainability and CSR into our strategy, planning, implementation and management systems
- Providing clear public reporting on our management systems and performance.

In Georgia, the Group has worked on the preparation of a number of detailed Environmental Impact Statements (EIS).

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 through the setting of 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.



Paul Haywood
Chief Executive Officer

Board of Directors

Paul Haywood | Chief Executive Officer

Paul has a wealth of experience and success in delivering value for his investment network through a blended skill-set of corporate and operational experience, including six years in the Middle East building early stage and growth projects. More recently Paul has held senior management roles with UK and Australian public companies in the natural resources sectors, including hard-rock exploration in the MENA region and oil and gas exploration in the FSU.

Roger McMechan | Technical Director

Roger has more than 30 years' experience of managing domestic and international operations with senior managerial and executive roles at companies including Petro Canada, Burlington Resources and Winstar Resources (active in Algeria, Hungary, Romania and Tunisia). He has deep experience in new field development, mature field optimisation, oil and gas well completions and stimulation, and oil and gas opportunity evaluation. Roger has worked in Georgia for five years, overseeing operations, crude marketing, new well drilling, old well workovers and recompletions. He has a BSc in Engineering from the University of Waterloo and is a Professional Engineer registered in Alberta.

Serina Bierer | Finance Director

Serina gained her MSc in Geological Sciences from the Royal School of Mines, Imperial College London in 2003. She qualified as a Chartered Accountant with BDO LLP before working in the natural resources team. Her client portfolio covered mining as well as oil and gas companies, with a particular focus on Middle Eastern due diligence projects. Serina has specialised in the AIM and ASX upstream oil and gas industry for more than 10 years, and has a proven track record of successfully delivering board strategy through financial management, planning, financial modelling, system integration, treasury management, joint interest partner ventures and structured finance activities. Serina has also worked closely with overseas government and financial regulatory bodies, negotiating a range of applicable tax and financial reporting policies.

Niall Tomlinson | Business Development Director

Niall has more than a decade's experience as an energy and mining analyst. He began his career with Rio Tinto as an exploration geologist and has worked with a range of junior natural resource companies. Niall has spent three years assessing natural resource projects in the Republic of Georgia. He holds an MSc in Metals and Energy Finance from Imperial College and is a Chartered Geologist.

Philip Dimmock | Non-Executive Chairman

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 Advisor to Oando Energy Resources Inc. Philip has an MA in Physics from the University of Oxford.

Timothy Parson | Non-Executive Director

Timothy Parson is a petroleum engineer with 35 years global on and offshore experience, ranging from deep water operations in the Far East to onshore multi-rig activities in the Middle East, Amazon and Europe. Timothy has worked as a superintendent at Schlumberger and executive at Occidental Petroleum. He has degrees in Petroleum Engineering from the University of New South Wales and Business Management from Curtin University.

Christopher Brown | Non-Executive Director

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 MontBlanc Oil & Gas and Beagle Geoscience, which provide 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, and has managed seismic and well operations encompassing deep water, shelf, desert, mountain, urban and jungle terrain. He is a regular speaker and presenter at industry conferences.

Report of the Directors

The Directors present their report and the audited financial statements of Block Energy Plc ('the Group') for the year ended 30 June 2018.

Principal activity and review of the business

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

Results and dividends

The results for the year are set out on page 39.

The Directors do not recommend payment of a dividend (2017: £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 business review on page 5.

Directors and Directors' interests

The Directors of the Company during the year are noted on page 2.

Details of Directors' interests in shares are disclosed on page 32.

Political contributions

During the year political donations totalled £Nil (2017: £Nil).

The Group provides Directors' and Officers' liability insurance at a cost of £1,546 (2017: £1,530).

Financial instruments

The main financial risks arising from the Group's activities are liquidity risk 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.

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 21 November 2018.



Paul Haywood
Director

Date: 21 November 2018

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.

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 (QCA) 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 largest 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 interests in three licences: Norio (100% WI), Satskhenisi (90% WI) and West Rustavi (currently 25% WI earning into 75%). All lie adjacent to a strategic position taken by Schlumberger, and within the region's prolific Kura basin.

Block's licences already produce 15 bopd. We have a three-phase strategy – detailed in our Corporate Presentation – to rapidly increase existing oil production and maximise the recovery of reserves:

1. Stage One (2018-2019): Significantly increase production through low cost, low risk workovers and horizontal sidetracks of existing wells.
2. Stage Two (2019): Test and flow gas in previous discoveries at West Rustavi, which has significant contingent gas potential. Sidetrack existing wells and potentially drill new horizontal wells.
3. Stage Three (2020): Bring West Rustavi gas online. Seek and acquire further opportunities to apply effective drilling, completion and production techniques in Georgia and the wider European region.

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

- 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 wide experience in Georgia and across the international oil and gas industry. One of our major shareholders, Georgia Oil & Gas (GOG), 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 capable of cutting through the near-wellbore damage believed to exist in the wells drilled within our licences during the Soviet era, and to successfully deploy sidetracking and suitable completion techniques to optimise production from the fractured and compartmentalised reservoirs present. Our technical team has selected a state-of-the-art enhanced perforation system that our research indicates will be ideal for overcoming the historic wellbore damage. The tool opens the possibility of increasing production by two to three times more than conventional perforating techniques would typically allow. In addition, the Company is working with personnel with a record of successfully deploying horizontal sidetracks in Georgia that increased initial production rates by an average multiple of 10.

- All our operations are conducted within a 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 a professional adviser with decades of experience overseeing HSE in Georgia for multinational oil and gas companies as a full time HSE manager. He works onsite to enforce and further develop our policies.
- The Board recognises the critical importance of developing effective communications channels with current and prospective investors. We release regular market announcements which are posted automatically to our website as soon as they appear on the London Stock Exchange's Regulatory News Service. Our directors are frequently interviewed on channels such as Proactive Investors and Vox Markets. We also distribute our RNS announcements and other Block news through social media and a mailing list subscription service, and take the Company's message to investor events around the UK. All of our communications are available on the 'Announcements', 'Investors' and 'Media' sections of our website. We intend to meet our major institutional investors frequently, hosting regular investor days in addition to the Annual General Meeting (AGM).
- The Company contracts an experienced financial communications company to assist with the preparation of 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. We are an agile and open-minded operator, alert to fresh opportunities for applying the latest exploration and production technologies and processes to realise the potential of our licences.

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

The Board strives to keep shareholders up-to-date 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 AIM Rules. 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 the '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 table below summarises the communications the Company has undertaken with current and potential investors in addition to regular RNS announcements:

Date	Activity	Participants
15 Oct 18	Chief Executive Officer interviewed by Proactive Investors about the start of Block's workover programme [https://www.proactiveinvestors.co.uk/companies/stocktube/10848/block-energy-s-paul-haywood-chats-to-proactive-as-well-workover-program-begins-10848.html].	CEO
5 Oct 18	Chief Executive Officer interviewed by Proactive Investors about gas offtake agreement for West Rustavi field [https://www.proactiveinvestors.co.uk/companies/stocktube/10745/block-energy-plc-signs-mou-for-gas-offtake-from-west-rustavi-licence-10745.html].	CEO
4 Sep 18	Chief Executive Officer, Non-Executive Chair and Executive Director presented Block's latest corporate presentation at the Oil Capital Conference, London [http://www.oilcapital.com/conferences].	CH, CEO, ED
31 Aug 18	Chief Executive Officer interviewed by Proactive Investors about Georgian government clearance for our West Rustavi operations [http://www.proactiveinvestors.co.uk/LON:BLOE/Block-Energy-Plc/Company_media/].	CEO
Aug 18	Investors mailing list subscription service introduced	
Jul 18	Technical Director presented a series of videos onsite in Georgia introducing Block's field operations [https://vimeo.com/blockenergy].	TD
Jun 18	Chief Executive Officer, Executive Director, Financial Director and Technical Director interviewed for 'meet the directors' videos published Block's Vox Markets channel [https://www.voxmarkets.co.uk/Company/BLOE/details/].	CEO, ED, FD, TD
Jun 18	Chief Executive Officer gave series of interviews with Proactive Investors and Vox Markets following Block's admission to AIM [http://www.proactiveinvestors.co.uk/LON:BLOE/Block-Energy-Plc/Company_media/] and [https://www.voxmarkets.co.uk/Company/BLOE/details/].	CEO

Key: CH (Chair), CEO (Chief Executive Officer), TD (Technical Director), FD (Financial Director), ED (Executive Director)

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

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

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

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

Stakeholder	Reason for engagement	How we engage
Staff. Our capacity to design and execute our strategy depends on the health, development and retention of our dedicated and skilled staff.	Transparent and regular communications with staff is essential for ensuring understanding of commitment to the Company's objectives. And as an oil and gas production company we have particular health, safety and environmental obligations (see 'Communities and environment' below).	Our London staff have daily team meetings. Our international team join a weekly dial-in meeting. The Directors make regular trips to Georgia to work with our operations staff onsite. The CEO has regular one-on-one meetings with every staff member.
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, incidentally, meeting regulatory requirements.	RNS announcements published on our website and across our online channels. Interviews with our directors published as videos and podcasts. Investor mailing list subscription service. Regular updates to our corporate presentation. Attendance at investor relations events. Annual report and AGM.
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.	Adherence to Georgian state regulations. Commitment to fulfilling our AIM obligations. Annual audit of Company processes and financial risks. We have developed comprehensive Market Abuse Regulations (MARS) and Anti-Bribery policies.

Stakeholder	Reason for engagement	How we engage
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 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 MARS 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.

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 Committee

The Board has established an Audit 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 Committee considers an internal audit function is not currently justified. The Audit Committee comprises Philip Dimmock (Chairman), Serina Bierer and Niall Tomlinson.

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 the granting of share options and other equity incentives pursuant to any share option scheme or equity incentive scheme in operation. The remuneration and terms and conditions of appointment of the non-executive directors of the Group is set by the Board. 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 comprises Chris Brown (Chairman), Philip Dimmock and Paul Haywood.

Nominations Committee

The Nominations Committee will meet as and when necessary to consider appointments to the Board and senior management positions. The Nominations Committee comprises Philip Dimmock (Chairman), Serina Bierer 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 (MARS). The Disclosure Committee comprises Philip Dimmock (Chairman) and Serina Bierer.

Health, Safety and Environment

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 is yet to establish an HSE Committee. It has therefore taken on the responsibility of formulating the HSE Policy and establishing an HSE Management Plan for the remainder of 2018 and the whole of 2019. 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.

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

A Board meeting is held every month. 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 and dial-in and video conferencing meetings with staff and investors.

Executive and non-executive directors' attendance at Board, committee and other significant meetings since the Company began AIM trading on 11 June 2018 is summarised below:

Date	Meeting	Attendance	
		Present	Apologies
24 Oct 18	Board Meeting	6	All directors present
24 Oct 18	Remuneration Committee	3	All invitees present
12 Oct 18	Board Meeting	5	Apologies from one director
5 Oct 18	Board Meeting	6	All directors present
24 Sep 18	Nominations Committee	3	All invitees present
21 Sep 18	Board Meeting	5	Apologies from one director
6 Sep 18	Nominations Committee	3	All invitees present
28 Aug 18	Board Meeting	5	Apologies from one director
14 Aug 18	Technical Meeting	6	All invitees present
31 Jul 18	Board Meeting	6	All invitees present
31 Jul 18	Audit Committee	3	All invitees present
3 Jul 18	Board Meeting	6	All invitees present

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 year. The Chairman is responsible for ensuring directors receive accurate, sufficient and timely information to facilitate their decision-making. The Company's Communications Officer minutes the meetings and compiles the papers circulated to directors prior to meetings. Directors are aware of the right to have any concerns minuted and to seek independent advice at the Company's expense where appropriate. Minutes are passed to the Company Secretary for archiving.

The Board has at least one formal meeting a month. 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 and will review the Annual Report and Statement of Accounts in preparation. The Directors also intend to visit Georgia twice a year in order 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 difficult to quantify because directors make themselves available as required on a daily basis: the total is in the range of 36 days per year.

The Board believes its blend of experience, skills, personal qualities and capabilities is sufficient to enable it to successfully execute the Company's strategy. 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 the founding Directors brought new directors onto the Board to ensure that the Directors have the collective experience and skills to oversee the activities of the Company and the successful execution of its strategy. Together, the Directors have wide 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 the Board's skills and experience for designing 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, provide updates on governance issues, and the Company's nominated advisors, Spark Advisory Partners, provide annual Board AIM Rules refresher training as well as the initial training received in the course of a new director's onboarding.

The Directors have access to the Company's nominated advisors, 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 success of the Company. 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 thus, ultimately, Company performance.

It is intended that a questionnaire method of measuring the performance of the Board will be introduced at the end of the first full financial year of listing on AIM.

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

Our long-term growth is underpinned by our core values:

- 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 the successful execution of our current and future strategy.
- We are committed to employing the industry's most 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 them 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;
- 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 Technical, Executive, and Financial 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 Communications Officer is responsible for providing clear and timely information flow to the Board and its committees and the Company Secretary supports 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 Committee

Please see the description of our Audit 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.

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 we joined AIM:

Audit Committee Report

Through July and August 2018 the Audit Committee reviewed the agreement with the Company's then auditor and interviewed a number of other companies providing audit services to ensure Block is being serviced with the optimal audit services for a company of our kind, and receiving the best value for money for the audit fee. The Committee met to consider and compare each proposal, and decided to change the company's auditor to BDO, the leading audit firm for AIM-quoted oil and gas companies.

Nominations Committee Report

The Nominations Committee has met twice since the Company was listed on AIM in June 2018. It has developed criteria for the selection of non-executive directors and has identified candidates that meet those criteria in order to formulate a succession plan. The Committee has considered the merits of a number of those candidates and has selected one for immediate recruitment to the Board.

Remuneration Committee Report

The Remuneration Committee met immediately before the Company listed on AIM has met twice since. It awarded stock options to executives as part of an Enterprise Management Incentive Scheme. It was decided that it was too early in the life of the Company for the options to be performance related. The Committee also undertook a preliminary review of the appropriateness of the executives' remuneration and its alignment to shareholder value. The Committee decided that, in due course, an annual bonus scheme would further improve alignment.

Disclosure Committee Report

There has been no call to convene the Disclosure Committee since the Company was listed on AIM.

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.

Statement of Director's 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 adopted by the European Union. 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 adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Website publication

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

During the year, the members of the Remuneration Committee (the Committee) were Paul Haywood (CEO), Timothy Parson (Non-Exec Director) and Philip Dimmock (Non-Exec Director). The Committee met formally twice during the year ended 30 June 2018.

Paul Haywood, stood down from the Committee on the listing on AIM. Timothy Parsons stood down on retiring from the Company. The Committee currently comprises Chris Brown (Chairman) and Philip Dimmock.

Remuneration policy

The Committee, in forming its policy on remuneration, gives due consideration to the needs of the Group, the shareholders and the provisions of the UK Corporate Governance Code. The ongoing policy of the 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 Committee keeps itself informed of relevant developments and best practice in the field of remuneration and seeks advice where appropriate from external advisors.

The remuneration policy for the non-executive directors is determined by the Board, taking into account best practice and the Articles of Association. It maintains oversight of the remuneration of staff which is the responsibility of the Chief Executive Officer.

Explanation of the implementation of the Remuneration policy

It is the aim of the Committee to reward key executives for delivering value for the Group and for shareholders. The Committee also applies the broader principle that Block Energy's executive remuneration should be competitive with that enjoyed by directors of comparable companies. The Committee is currently developing new key performance indicators for the business as a whole and for each individual executive and member of staff with the aims of measuring performance accurately and consistently and of rewarding performance appropriately.

Base salary

The policy is to pay a fair and reasonable base salary, set around the median level of comparative salaries for similar roles in comparable companies. The base salary is reviewed frequently by the Committee, having regard to the performance of the Company and economic conditions.

Pension

The Company provides for a pension contribution of 10% base salary. However, in the financial year no officer or employee has opted to receive this benefit.

Other benefits

Currently, there are no other benefits.

Remuneration

	Salary £	Fees £	Pension £	Taxable benefits £	Shares issued £	2018 Total £	2017 Total £
Non-Executive Directors							
Timothy Parson	1,667	12,000*	–	–	13,000*	26,667	1,000
Ryan Long	–	–	–	–	–	–	6,000
Gareth Northam	–	–	–	–	–	–	3,500
Philip Dimmock	2,500	–	–	–	12,500*	15,000	–
Subtotal	4,167	12,000	–	–	25,500	41,667	10,500
Executive Directors							
Paul Haywood	74,769	–	–	–	–	74,769	45,000
Niall Tomlinson	52,154	–	–	–	–	52,154	41,000
Roger McMechan	6,923	52,373*	–	–	–	59,296	–
Serina Bierer	3,692	43,575*	–	–	16,800*	64,067	–
Subtotal	137,538	95,948	–	–	16,800	250,286	86,000
Total	141,705	107,948	–	–	42,300	291,953	96,500

Roger McMechan, Serina Bierer and Philip Dimmock were appointed to the Board of Block Energy Plc on the 11 June 2018.

* Prior to AIM admission these directors were consultants and remunerated in fees and shares issued in lieu of fees.

Directors' interests in Shares

The Directors who held office at the end of the year had the following interests in the issued share capital of the Group:

	30 June 2018	30 June 2017
Timothy Parson	325,000	–
Philip Dimmock	312,500	–
Serina Bierer	420,000	–
Paul Haywood	*1,654,727	2,800,000
Niall Tomlinson	*1,734,727	3,200,000

* Shares issued prior to November 2017 were affected by the 5:1 share consolidation exercise



Christopher Brown
Chairman of the Remuneration Committee



Independent Auditor's Report to the members of Block Energy Plc

Opinion

We have audited the financial statements of Block Energy Plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 30 June 2018 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 Cash Flows, the Parent Company Statement of Financial Position, the Parent Company Statement of Changes in Equity, the Parent Company Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards as adopted by the European Union (IFRSs) and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 30 June 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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.

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 are 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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) 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.

Key Audit Matter**Our response****Carrying value of non-current assets**

At 30 June 2018 the carrying value of the Group's non-current assets was £2.8 million (2017: £0.7 million).

The non-current assets relate to the Group's exploration and evaluation assets ("E&E") which are classified as intangible assets (note 13) and the Group's development and production assets ("D&P") which are categorised within the property, plant and equipment classification (note 14).

In respect of both the Group's E&E assets and the D&P assets Management and the Directors are required to assess for any indicators of impairment of the assets.

Given the significance of the assets on the Group's statement of financial position and the significant management judgement involved in the assessment of the carrying values of the assets there is a significant risk of material misstatement.

In respect of both the E&E assets and D&P assets we evaluated Management's and the Board's impairment review for each cash generating unit identified. We critically challenged the considerations made of whether or not there were any indicators of impairment identified in accordance with the relevant accounting standard.

Our specific audit testing for the E&E assets included:

- The verification of licence status to confirm legal title and validity of each of the licences;
- Reviewing activity to assess whether there was evidence from technical work undertaken to date by Management and third parties which would indicate a potential impairment trigger;
- Reviewing approved budget forecasts and minutes of Management and Board meetings to confirm the Group's intention to continue exploration work on the licences, and
- In order to obtain an understanding of Management's expectation of commercial viability we considered available technical documentation and discussed results and operations with Management.

Our specific audit testing for the D&P assets included:

- The verification of licence status in order to confirm legal title and validity of each of the licences;
- Reviewing the external and internal sources of information, such as third party reports in order to assess whether any potential impairment triggers were present;
- Reviewing third party reports and Management estimates relating to the assessment of the potential recoverable value of the assets. As part of this work we sensitised inputs used in the models and benchmarked data to external sources of information; and
- Making an assessment of the competence of the expert management relied upon.

Key Audit Matter	Our response
<p>Accounting for the Satskhenisi business combination</p> <p>During the year the Group completed the acquisition of Satskhenisi Ltd (note 8).</p> <p>Management and the Directors are required to assess how the transaction should be accounted for. Management and the Directors concluded that the transaction should be accounted for as a business combination that requires significant management judgement to be applied in the assessment of the fair values of the assets, liabilities and contingent liabilities acquired and in the determination of the consideration settled. We therefore considered there to be a significant risk of material misstatement.</p>	<p>Our specific testing and work on the transaction included:</p> <ul style="list-style-type: none"> • A detailed review of the sale and purchase agreement in order to identify the key terms of the transaction; • Assessing Managements and the Directors determination that the transaction should be accounted for as a business combination under the provisions of the relevant accounting standard; • Assessing the determination of the fair value of the consideration settled for the transaction. • Assessing whether the acquisition date identified by Management and the Directors was appropriate and correctly reflected in the accounting treatment adopted. • Assessing Management and the Directors determination of the fair values of the assets, liabilities and contingent liabilities acquired as part of the transaction. • Making an assessment of the competence of the expert management relied upon in the assessment of the fair value of oil and gas assets acquired; and • Reviewing the appropriateness of the disclosure of the transaction within the financial statements.

Our application of materiality

Group materiality	£94,000
Basis for determining materiality	1.3% of total assets
Group performance materiality	£60,000
Basis for performance materiality	65% of Group materiality
Company materiality	£52,000
Basis for determining materiality	Restricted to 55% of Group materiality
Company performance materiality	£34,000
Basis for performance materiality	65% of Company 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. 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.

We consider total assets to be the most significant determinant of the Group's financial performance used by members as the Group continues to develop its portfolio of oil and gas assets through to production.

Whilst materiality for the financial statements as a whole was £94,000, each significant component of the Group was audited to a lower level of materiality ranging from £16,000 to £52,000. Performance materiality has been set at 65% of materiality, which is used to determine the financial statement areas that are included within the scope of our audit and the extent of sample sizes during the audit. As part of our assessment of performance materiality we took into account that the current year was the first year of our appointment as auditor to the Group.

We agreed with the Audit Committee that we would report to the Committee all individual audit differences identified during the course of our audit in excess of £2,000. We also agreed to report differences below these thresholds that, in our view warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our Group audit scope focused on the companies within the Group which hold the Group's assets. Block Energy Plc and GNV Inc were 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 of the audits of the significant components were performed in the United Kingdom by BDO LLP.

The remaining components of the Group were considered non-significant. The non-significant components were principally subject to analytical review procedures. Detailed audit testing was also performed on financial statement areas where specific audit risks had been identified. This audit work was also performed in the United Kingdom by BDO LLP.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, 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.

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the 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.

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:

- 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; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and 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.

A further description of our responsibilities for the audit of the financial statements is located 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.

Anne Sayers (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
21 November 2018

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

Consolidated Statement of Comprehensive Income

At 30 June 2018

39

Continuing operations	Note	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Revenue	4	133	–
Other cost of sales		(198)	–
Depreciation and depletion of oil and gas assets	5	(36)	–
Total Cost of Sales		(234)	–
Gross (loss)/profit		(101)	–
Exploration and evaluation expense		–	(3)
Costs in relation to Aim listing		(385)	–
Administrative costs		(775)	(281)
Share based payments charge		(68)	–
Total Administrative expenses	6	(1,228)	(281)
Foreign exchange movement		4	–
Results from operating activities and other income		(1,325)	(284)
Finance income		1	–
Finance expense		(36)	(6)
Loss for the year before taxation		(1,360)	(290)
Taxation	8	–	–
Loss for the year from continuing operations (attributable to the equity holders of the parent)		(1,360)	(290)
Discontinued operations			
Discontinued operations – Antubia Ltd	12	127	9
Loss for the year		(1,233)	(281)
Total comprehensive income for the year attributable to the equity holders of the parent		(1,233)	(281)
Earnings per share basic and diluted	9	(1.20)p	(0.60)p

The notes on pages 43 to 62 form part of these financial statements.

Consolidated Statement of Financial Position

At 30 June 2018

	Note	2018 £'000	2017 £'000
Non current assets			
Intangible assets	13	1,435	654
Property, plant and equipment	14	1,365	–
		2,800	654
Current assets			
Trade and other receivables	18	127	244
Inventory	16	253	–
Cash and cash equivalents	19	3,997	215
Asset Held for Sale	15	–	329
Total current assets		4,377	788
Total assets		7,177	1,442
Equity and liabilities			
Capital and reserves attributable to equity shareholders of the Company			
Share capital	22	1,675	1,217
Share premium		9,222	2,721
Other reserves	23	68	–
Accumulated deficit		(3,998)	(2,807)
Total Equity		6,967	1,131
Liabilities			
Trade and other payables	21	165	64
Borrowings	26	45	247
Total current liabilities		210	311
Total equity and liabilities		7,177	1,442

The financial statements were approved by the Board of Directors and authorised for issue on 21 November 2018 and were signed on its behalf by:



Serina Bierer
Director



Paul Haywood
Director

The notes on pages 43 to 62 form part of these financial statements.

Consolidated Statement of Changes in Equity

At 30 June 2018

Group	Share Capital £'000	Share premium £'000	Accumulated deficit £'000	Other Reserves £'000	Total equity £'000
Balance at 30 June 2016	1,048	1,628	(2,527)	–	149
Loss for the year	–	–	(281)	–	(281)
Total comprehensive loss for the year	–	–	(281)	–	(281)
Issue of shares	169	1,110	–	–	1,279
Cost of issue	–	(17)	–	–	(17)
Total transactions with owners	169	1,093	–	–	1,262
Balance at 30 June 2017	1,217	2,721	(2,808)	–	1,130
Loss for the year	–	–	(1,233)	–	(1,233)
Total comprehensive loss for the year	–	–	(1,233)	–	(1,233)
Share based payments	–	–	–	68	68
Issue of shares	458	6,877	–	–	7,335
Foreign exchange revaluation	–	–	43	–	43
Cost of issue	–	(376)	–	–	(376)
Total transactions with owners	458	6,501	43	68	7,070
Balance at 30 June 2018	1,675	9,222	(3,998)	68	6,967

Please refer to note 20 in the Group consolidated notes for non cash transactions.

Consolidated Statement of Cashflows

At 30 June 2018

	Note	2018 £'000	2017 £'000
Operating activities			
Loss for the year before income tax		(1,360)	(290)
Profit from discontinued operations		127	9
Adjustments for :			
Non-refundable deposit received		–	(39)
Depreciation and depletion	5	36	–
Finance income		(1)	–
Finance expense		36	6
Share based payments expense	6	68	–
Gain on sale of subsidiary		(127)	–
Foreign exchange movement		(4)	–
AIM Admission costs		385	–
Net cash flow from operating activities before changes in working capital		(840)	(314)
Decrease in trade and other receivables	18	117	(286)
Increase in trade and other payables	21	101	291
Increase in inventory	16	253	–
Net cash flow from operating activities		(369)	(309)
Investing activities			
Non-refundable deposit received		–	39
Income received		1	–
Expenditure in respect of intangible assets	13	(592)	(422)
Expenditure in respect of PPE	14	(527)	–
Consideration received on sale of subsidiary	12	454	–
Cash used in investing activities		(664)	(383)
Financing activities			
Issue of ordinary share capital	22	5,250	750
Costs related to issue of ordinary share capital		(761)	(17)
Interest paid		(36)	–
Convertible loan notes issued	26	360	170
Net cash from financing activities		4,813	903
Net increase in cash and cash equivalents in the year		3,780	211
Cash and cash equivalents at start of year		215	12
Effects of foreign exchange rate changes on cash and cash equivalents		2	(8)
Cash and cash equivalents at end of year		3,997	215

Corporate information

Block Energy Plc traded on NEX until March 2018 and 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 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 21 November 2018. 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 advisors 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 and the Report of Directors on pages 2 and 9, respectively.

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. All amounts presented are in '000 GBP unless otherwise stated.

These financial statements have been prepared on a historical cost basis in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations issued by the International Accounting Standards Board (IASB) adopted by the European Union and in accordance with applicable UK Law. The adoption of all of the new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to the operations and effective for annual reporting periods beginning on 1 July 2017 are reflected in these financial statements.

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.

New Accounting Standards issued but not yet effective

Standards issued and relevant to the Group, but not yet effective at the date of these Group financial statements are listed below. The standards discussed are those that the Group reasonably expects to be applicable to the financial statements in the future and therefore do not include those standards or interpretations that the Directors consider will not be relevant to the Group. The Group intends to adopt these standards when they become effective. The Directors do not expect that the adoption of these standards will have a material impact on the Group's financial statements either in the period of initial application or thereafter. An assessment of the impact of each relevant standard is included below.

IFRS 9: Financial Instruments (IFRS 9)

IFRS 9 is effective for accounting periods starting on or after 1 January 2018 and deals with the classification and measurement of financial instruments. Financial instruments will include loans receivable/payable, derivative financial instruments and accounts payable and receivable balances. Measurement remains broadly consistent with previous guidance with financial assets and liabilities at fair value or amortised cost. Where financial assets and liabilities are carried at fair value, the standard provides guidance on where to recognise periodic changes in fair value with the primary options being through the income statement or directly to reserves. The standard also provides guidance on hedge accounting where a company elects to apply hedge accounting. The most significant change in the new standard that impacts the Group relates to the measurement of credit risk and the recognition of that risk through adjusting the carrying value of the underlying instrument. The standard requires a company to assess the '12-month expected credit losses' on inception of a financial instrument (generally an asset) and recognise those expected losses in the income statement by way of an allowance. Where the expected credit risk increases significantly and is not considered to be low, the full credit loss that is expected over the lifetime of the asset is recorded.

At present the Group are assessing the particular impact of IFRS 9 on the Group. Balances which may be impacted are the trade receivables and the inter-company loan balances.

IFRS 15: Revenue from Contracts with Customers (IFRS 15)

IFRS 15 is effective for accounting periods starting on or after 1 January 2018 and seeks to provide more meaningful information regarding revenue to users of financial statements. The standard describes a five-step approach to be taken to the assessment of revenue that requires companies to:

1. identify the customer party to each contract;
2. understand the performance obligations in the contract;
3. determine the transaction price;
4. allocate that price to the identifiable performance obligations; and
5. recognise revenue when (or as) a performance obligation is met.

The standard could result in a change in the pattern of revenue recognition for certain types of contract that (typically) contain multiple performance elements and are delivered over a period of time.

There is not expected to be any difference to revenue recognition for the Group under the new standard. Consistent with industry practice the Group makes sales of crude oil which are commodity products. Contracts define a specific delivery point which is considered to be the signing of the Act of Acceptance when physical custody is transferred and title passes. There is a single performance obligation being physical delivery at a specified point. The Group receives revenue that is measured at fair value of the consideration receivable net of value added tax.

The implementation of IFRS 15 is therefore not expected to have any effect on revenue recognition (timing or quantum) for oil sales.

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 not identified material lease arrangements to date but will continue to assess the potential impact of the Standard prior to the effective date of the Standard.

- (i) New and amended standards adopted by the Group:

No new standards and amendments to standards and interpretations effective for annual periods commencing on or after 1 July 2017 have had a material impact on the Group.

- (ii) The following standards, amendments and interpretations, which are effective for reporting periods beginning after the date of these financial statements, have not been adopted early:

Standard	Description	Effective date
IFRS 15	Revenue from Contracts with Customers	1 January 2018
Clarifications to IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 16	Leases	1 January 2019
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Annual Improvements 2014-2016 Cycle	Annual Improvements to IFRS Standards; 2014-2016 Cycle – Partial adoption	1 January 2018
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

Basis of consolidation

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

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

Business combinations and Goodwill

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

Acquisitions

The Group and Company measures 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

It is the prime responsibility of the Board to ensure the Group remains a going concern. At 30 June 2018 the Group had cash and cash equivalents of £4 million (2017: £0.2 million). In addition, the Group is fully funded to carry out the operational workplan across the three Georgian PSC's over the next year.

In the event of extreme financial distress, the Directors are confident that the implementation of austerity measures will allow the Group to meet all committed and contractual expenditure without requiring external investment twelve months from the date of approval of the financial statements.

The Directors, taking into account the above, are satisfied that it is appropriate to adopt the going concern basis of accounting in preparation of the Financial Statements.

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 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.

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 recognized. 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 recognized for the asset in prior years.

Property, plant and equipment and depreciation

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

PPE – 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.

Operating leases

Rent paid on operating leases is charged to the Consolidated Statement of Comprehensive Income on a straight line basis over the term of the lease.

Inventories

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

A provision is made for decommissioning of oil and gas wells. The cost of decommissioning is determined through discounting the amounts expected to be payable to their present value at the date of the provision is recognised and reassessed at each reporting date. In the current year, due, to no further development of the licences from their original sedentary working state, the decommissioning provision applicable was deemed immaterial to provide for.

Asset held for sale

Non-current assets (or disposal Groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal Group) is available for immediate sale in its present condition subject only to terms that are usual and customary.

Immediately before classification as held for sale, the measurement of the non-current assets (or all the assets and liabilities in a disposal Group) is brought up-to-date in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets (other than investment properties, deferred tax assets, financial assets and inventories) are measured in accordance with IFRS 5 that is at the lower of carrying value and fair value.

The Asheba asset (£329,000) held within the Ensign Resources Ltd subsidiary was classed as 'Held for sale' in the year ended 30 June 2017. The transaction was finalised in February 2018 and is therefore there is no 'Held for sale' balance as at year end.

Taxation and deferred tax

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

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

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

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

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

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

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling (GBP) at the rates of exchange prevailing at the reporting date. 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 presentational and functional currency the Company is Sterling (GBP) and accordingly the financial statements have also been prepared in this currency. GOG Norioskhevi Ltd, Satskhenisi Limited, GNV Inc and Ensign Resources Limited functional currencies are the US Dollar (\$USD).

Foreign operations

The assets are translated into GBP 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 recognized 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. As the operating entities within the Group are oil and gas businesses, and the oil and gas is sold in US dollars and funds are received for sales in US dollars, the functional currency of such entities is considered to be the US dollar. The functional currency of the Parent Company is Sterling (GBP).

The presentational currency of the Group for the year ended 30 June 2018 is Sterling (GBP). The presentational currency is an accounting policy choice.

Revenue

Revenue from the sale of oil is recognised when the significant risks and rewards of ownership have been transferred, which is when the title passes to the customer which is considered to be the signing of the Act of Acceptance. Revenue is measured at fair value of the consideration receivable net of value added tax.

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 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's financial assets consist of cash and cash equivalents at variable interest rates, loans and other receivables. Any interest earned is accrued and classified as interest. Trade and other receivables are stated initially at fair value and subsequently at amortised cost.

The Group's financial liabilities consist of convertible loan notes and trade and other payables. The trade and other payables are stated initially at fair value and subsequently at amortised cost. Convertible loan notes are treated as described below.

Convertible loan notes ("CLN")

In accordance with IAS 32, the Group has classified the convertible debt in issue as a compound financial instrument.

The functional currency and the CLNs are issued in GBP (the functional currency of the company). Under the terms of these CLNs, the loan instruments are considered to be financial liabilities since there is an obligation to settle cash which the issuer cannot avoid. Since the CLNs include a term whereby a 10% discount is given on the IPO issue price, and since the value of the 10% discount cannot be known at inception of the CLN the number of potential shares is not known. This will mean that the CLN fails the "fixed for fixed" criteria and the conversion feature must therefore be accounted for as a derivative liability. For convertible loan notes which have been identified as containing embedded derivative liabilities, the embedded derivative liability is valued first, with the residual balance (after deducting the value of the embedded derivative from the CLN) being considered to be the host loan financial instrument. The embedded derivative is accounted for at fair value through profit or loss and the loan liability is carried at amortised cost. The embedded derivative must be fair valued at each reporting date and the changes recognised in the income statement. Interest expense is calculated using an effective interest rate method.

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 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. 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 function). 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 function including unallocated costs.

The segmental results are as follows:

	Oil Extraction £	Group Corporate and other £	Total £
Year ended 30 June 2018			
Revenue	133	–	133
Cost of sales	(234)	–	(234)
Discontinued operations	–	127	127
Administrative costs	(205)	(1,023)	(1,228)
Net Finance costs and income	–	(35)	(35)
Loss from operating activities	(306)	(931)	(1,233)
Total non-current assets	2,800	–	2,800
Depreciation and depletion	36	–	36

	Oil production £	Group Corporate and other £	Total £
Year ended 30 June 2017			
Other Income	–	39	39
Exploration costs	(3)	–	(3)
Administrative costs	–	(311)	(311)
Finance costs	–	(6)	(6)
Loss from operating activities	(3)	(278)	(281)
Total non-current assets	654	–	654
Depreciation and depletion	–	–	–

Segmental asset	30 June 2018 £'000	30 June 2017 £'000
Mineral exploration – Ghana	–	329
Oil exploration – Georgia	3,078	654
Corporate and other	4,099	459
	7,177	1,442

Segmental liabilities	30 June 2018 £'000	30 June 2017 £'000
Oil exploration – Georgia	54	–
Corporate and other	156	311
	210	311

3. 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 Intangible assets

Under the full cost method of accounting for exploration and evaluation costs, such costs are capitalised as intangible assets by reference to appropriate cost pools, and are assessed for impairment in accordance with the IFRS 6 impairment indicators detailed in the accounting policy note 1. As at 30 June 2018, the Group assessed the exploration and evaluation assets disclosed in note 13 and determined that no indicators of impairment existed. There a number of judgements involved in the assessment of impairment triggers.

Recoverable value of Development & Production assets

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 triggers and also in respect of inputs used in the models which are used to support the carrying value of the assets. Such inputs include production profiles, costs, inflation rates and discount rates. The Directors concluded there was no impairment in the current period.

Estimation of oil and gas reserve volumes

Oil and gas reserves are the quantities of oil and gas that management considers are commercially recoverable in the future from known accumulations within the Group's licence areas and under defined economic and operating conditions. The estimation of reserve volumes is inherently imprecise, requires the application of judgement and is subject to future revision. Decreases in sales prices, increases in cash operating costs or variations in the expected production profile for wells, as compared to the assumptions applied in the estimation of reserve volumes as per the CPR, can cause variation from those estimates. Variations can be positive or negative. Subsurface conditions and other engineering factors can also affect estimated reserve volumes. Oil and gas reserve volumes have been derived from an external CPR produced on 1 January 2018. The estimation of reserve volumes primarily influences the depreciation, depletion and amortisation charge for the year.

Accounting for business combinations and fair value

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, then the fair value of the consideration given is calculated by reference to the specific elements of the consideration given to the seller.

4. Revenue

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Crude oil revenue	133	–

The first crude oil sale was made in December 2017 from the Norioskhevi and Satskhenisi oil fields.

5. Depreciation and Depletion on Oil and Gas assets

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Depreciation of PPE	22	–
Depletion of oil and gas assets	14	–
	36	–

6. Administration costs

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Administration costs are as follows:		
Employee benefit expense (note 7)	304	99
Share option charge	63	–
Warrants charge	5	–
AIM listing fees	385	–
Audit fees paid to the Audit in respect of the Group and Company audit	23	14
Fees to Auditor for other non-audit services	13	–
Regulatory fees	21	13
Operating lease expense	22	–

7. Employees

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Employment costs consist of:		
Wages and salaries	250	73
Shares issued in lieu of services	42	–
Share based payments	63	24
Social security costs	12	2
	367	99

The average monthly number of employees during 2018 was 2 (2017: 3). The Group pension plan was not active at year end. The wages and salaries of the Company are equivalent to those of the Group, as employees are contracted with Block Energy Plc only. The share based payments were shares issued for consulting services provided.

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Amounts attributable to the highest paid director:		
Director's fees and benefits	75	39
Share based payments	30	7
Social security costs	7	1
	112	47

Key management and personnel are considered to be the Directors. The Group provides Directors' and Officers' liability insurance at a cost of £1,546 (2017: £1,530). This cost is not included in the above table

8. 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 30 June 2018 £'000	Year ended 30 June 2017 £'000
UK taxation		
UK Loss on ordinary activities	(1,402)	(235)
Loss before taxation at the average UK standard rate of 19% (2017:20%)	(266)	(47)
Effect of:		
Tax losses for which no deferred income tax asset was recognised	(266)	(47)
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 recognized 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. Unrecognized 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 £2,262,000 (2017: £861,000).

9. Earnings per share

	Year ended 30 June 2018	Year ended 30 June 2017
(Loss) per share from continuing operations – basic	(1.32)p	(0.62)p
Earnings per share from discontinuing operations – basic	0.12p	0.02p
Loss per share – basic	(1.20)p	(0.60)p

The basic loss per share is derived by dividing the loss for the period attributable to ordinary shareholders by the weighted average number of shares in issue.

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
(Loss) for the year from continuing operations (used in calculation of basic LPS from continuing operations)	(1,360)	(290)
Profit for the year from discontinuing operations (used in calculation of basic LPS from discontinuing operations)	127	9
(Loss) for the year (used in calculation of total basic LPS)	(1,233)	(281)
Weighted average number of Ordinary shares of 0.25p in issue	102,915,614	47,095,974

The loss per share of all years also take into the post year end 5:1 share consolidation, as detailed in note 22 to the consolidated financial statements.

Diluted share earnings per share has not been calculated as the options and warrants have no dilutive effect given the loss arising for the year.

10. Acquisition of Subsidiaries and associated PSC interests

Acquisition of GNV Inc

On the 12 September 2017 the Company reached an agreement for the acquisition of the entire share capital of GNV Inc ("GNV"), a Bahamas registered company.

On acquisition, Block Energy paid US \$1 for the issuance of 1 ordinary GNV share, which means GNV is now a wholly owned subsidiary of Block Energy. GNV's principal activity is oil and gas extraction, and was bought for the purpose of holding the West Rustavi PSC licence, of which, it held initially a 5% interest, increasing to 25% by 30 June 2018. The transaction was treated as an asset acquisition.

Acquisition of interest in the West Rustavi PSC

The initial 5% interest in the West Rustavi PSC was bought for £79,000 (US \$100,000) from Georgian Oil and Gas (GOG) in the prior year. On admission to AIM, GOG were issued with US \$1 million of shares and US \$500,000 in cash in exchange for a further 20% working interest in the PSC. The total Group interest in the West Rustavi PSC was 25% at 30 June 2018.

As an increase in a working interest this transaction has been treated as an asset acquisition and recorded at cost.

Acquisition of Satskhenisi Ltd and associated 90% interest in the Satskhenisi PSC

On the 1 August 2017, the Company acquired 100% of the share capital of Satskhenisi Limited ("Satskhenisi"), a Marshall Islands registered company, and through this transaction a 90% interest in the Satskhenisi PSC.

On acquisition, the company paid US \$1,000 for the issuance of 1 ordinary Satskhenisi share. 70,000,000 ordinary shares valued at 0.85 pence were additionally issued as part of the consideration for the Satskhenisi PSC licence.

Satskhenisi's principal activity is oil and gas extraction, and was acquired for the purpose of facilitating petroleum operations under the Satskhenisi PSC licence. Petroleum operations include all activities relating to the Exploration, Development and transportation to the Measurement Point.

The transaction has been classed as a business combination under IFRS 3.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Fair Values £'000
Intangible assets	357
PPE	68
Oil inventory	12
Inventory and spare parts	169
Trade and other payables	(11)
Total net assets acquired	595
Fair value of consideration paid	
Total consideration – Cash and Ordinary shares of the Company 70,000,000 of 0.0085p each	595

Since the acquisition date, Satskhenisi Ltd has contributed £111,000 to the Group loss and revenue of £46,000.

The intangible asset fair value is derived from the Competent Persons Report (CPR), and is based on P50 NPV with a discount rate of 10%. The PPE and Spare parts were fair valued based on the condition of the items, and application of an industry accepted discount to the original cost. The oil inventory was fair valued by Management based on the post-acquisition recoverable value.

Increase in Interest in Norio PSC and transfer into Norioskhevi Ltd

Block Energy Plc acquired GOG Norioskhevi Ltd (Norio), a BVI incorporated company on the 20th April 2017. Prior year, the Group's interest in the Norioskhevi PSC was 38%. During current year the interest increased from 38% to 100%, through US \$610,000 cash consideration payment, and US \$250,000 share issue on AIM listing. In total, the consideration paid for the 100% interest in the Norio PSC was a cash payment of US \$1.3 million and an issue of US \$250,000 worth of Block Energy Plc ordinary shares.

This transaction has been treated as an asset acquisition and recorded at cost.

11. Sale of Taoudeni Resources SARL

On the 8 November 2017, an SPA was signed for the sale of Taoudeni Resources SARL. The consideration receivable was agreed as either:

- (a) A sum of £40,000 or,
- (b) Shares in the capital of the Buyer with a value of £40,000 (price being 30 day average weighted volume if buyer is listed).

The consideration is payable on the earlier of 30 days from the date of first production or the date falling on the fifth anniversary of the agreement (8 November 2023). Management have taken the view that five years is the most viable time period at which consideration will be received, and have discounted this amount to a present value of £36,000.

12. Discontinued operations – Antubia Ltd

The Antubia Ltd sale completed on 26 February 2018 for a total consideration of US \$600,000. The assets fair value was considered to be its carrying value. The analysis of total gain on disposal, carrying values of the assets and liabilities disposed, and also the net cash inflow from the disposal were as follows:

Total gain on divestment of Antubia Ltd	£'000
Consideration from the divestment	454
Carrying value of net assets	(329)
Foreign exchange	(2)
	127

Cashflow from divestment of Antubia Ltd	£'000
Consideration received from divestment	454
Cash and cash equivalents of Antubia foregone	–
Net cash inflow from divestment	454

13. Intangible assets

Cost	Licences £'000	Exploration and Evaluation cost £'000	Total £'000
At 1 July 2017	617	37	654
Additions during the year	1,335	–	1,335
Transfer to property, plant and equipment	(525)	(37)	(562)
Foreign exchange movements	8	–	8
At 30 June 2018	1,435	–	1,435

The additions in the current year are a result of the West Rustavi PSC increase from 5% through to 25%. The transfer to PPE relates to the Norioskhevi (£550,000) and Satskhenisi PSC (£12,000).

All the intangible assets are located in Georgia.

Cost	Licences £'000	Exploration and Evaluation cost £'000	Total £'000
At 1 July 2016	329	–	329
Reclassified to asset held for sale	(329)	–	(329)
Additions during the year	617	37	654
At 30 June 2017	617	37	654

14. Plant Property and Equipment

Cost	2018	2018	Total £'000
	Licence area £'000	Plant, Property and Equipment £'000	
At 1 July 2017	–	–	–
Transfer from intangibles	562	–	562
Additions	683	155	838
Forex	(2)	2	–
At 30 June 2018	1,243	157	1,400
Accumulated Depreciation			
At 1 July 2017	–	–	–
Charge for the period	14	21	35
At 30 June 2018	14	21	35
Carrying amount			
At 30 June 2018	1,229	136	1,365
At 30 June 2017	–	–	–

15. Asset Held for Sale

Details of asset held for sale are as follows:

Cost	2018 £'000	2017 £'000
At 1 July 2017	329	–
Additions	–	329
Disposal of assets	(329)	–
At 30 June 2018	–	329

On 8 June 2017 the Antubia Head of Terms was signed, and the asset classed as held for sale. The SPA was signed on 6 September 2017. The assets fair value is considered to be its carrying value. The Sale of Antubia was finalised and completed on 26 February 2018.

Antubia Ltd was a subsidiary of Ensign Resources and was sold for consideration of £454,000 (US \$600,000) giving rise to a gain on disposal of £127,000.

16. Inventory

	2018 £'000	2017 £'000
Spare parts and consumables	253	–

Spare parts includes drilling equipment and consumables utilised by the Group's seismic services company and will be consumed within 12 months.

17. Provisions

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.

No development work was performed on either the Norioskhevi or Satskhenisi oil fields during the year since the purchase of the Group's interest in these licences. As such, the potential decommissioning costs are considered to be immaterial at the reporting date and no provision has been made.

18. Trade and other receivables

	2018 £'000	2017 £'000
Other receivables	105	213
Unpaid share capital	–	25
Prepayments	22	6
	127	244

The 2018 balance relates mainly to VAT recoverable, and consideration to be received from the sale of Taoudeni SARL (please refer to note 11).

19. Cash and cash equivalents

	2018 £'000	2017 £'000
Cash and cash equivalents	3,997	215
	3,997	215

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.

All cash and cash equivalents are denominated in GBP (£) Sterling.

20. Non-cash transactions

During the year, the following shares were issued in settlement of service liabilities:

Shares issued in lieu of service	No of shares	Value £'000
Serina Bierer	420,000	17
Philip Dimmock	312,500	12
Tim Parson	325,000	13
Caravel	24,553	1
Taoudeni	72,120	3
St Brides	500,000	20
Spark	187,500	8
Total	1,841,673	74

On the 11 June 2018, as part of the AIM listing share issue, 4,695,717 shares at 4p (£187,828) were issued on behalf of GOG Norioskhevi as part of the PSC purchase agreement. In addition, 18,782,870 shares were issued at 4p (£751,315) on behalf of GNV Inc as part of the West Rustavi PSC consideration.

The listing also activated the conversion of all outstanding £360,000 convertible loan notes at a discounted price of 3.6p which resulted in the issue of 10,759,132 shares with a value of £387,329.

21. Trade and Other Payables

	2018 £'000	2017 £'000
Trade and other payables	71	14
Accruals	94	50
	165	64

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

All trade and other payables are denominated in GBP (£) Sterling.

22. Share capital

Called up, allotted, issued and fully paid	No. Ordinary Shares	No. Deferred Shares	Nominal £
As at 30 June 2016	2,095,165,355	–	1,047,582
Share sub-division at 31 December 2016	–	2,095,165,355	–
Share consolidation at 31 December 2016	(2,053,262,048)	–	–
Issue of equity on 10 January 2017	163,320,001	–	81,660
Issue of equity on 31 March 2017	30,000,000	–	15,000
Issue of equity on 9 May 2017	144,617,740	–	72,309
As at 30 June 2017	379,841,048	2,095,165,355	1,216,551
Issue of equity on 3 July 2017	10,588,235	–	5,294
Issue of equity on 1 August 2017	70,000,000	–	35,000
Issue of equity on 31 August 2017	29,411,765	–	14,706
Consolidation of Ordinary shares at 15 November 2017	(391,872,839)	–	–
Issue of equity on 11 June 2018	161,079,392*	–	402,699
As at 30 June 2018	259,047,601	2,095,165,355	1,674,250

* See below breakdown of the balance.

A subdivision and consolidation of capital exercise was undertaken at 31 December 2016. Every 50 existing Ordinary Shares of 0.05p were first subdivided into one Ordinary Share of 0.001p and one Deferred Share of 0.049p.

Following this subdivision, each 50 Ordinary shares of 0.001p were consolidated into one Ordinary Share of 0.05p, resulting in a reduction in the number of Ordinary Shares from 2,095,165,355 to 41,903,307 and the creation of 2,095,165,355 Deferred Shares.

On the 10 January 2017, £217,000 was raised through a placing of 86,800,000 shares of 0.05p, £121,300 of liabilities settled for 48,520,000, and 28,000,001 shares issued on conversion of the Pelemis convertible loan note.

On the 31 March 2017, £150,000 was raised through the issue of 30,000,000 ordinary shares at 0.05p to Pelemis Investments Ltd.

The issue of 144,617,740 shares at 0.05p on 9 May 2017 was executed to facilitate the following transactions;

	No. shares
Loan note conversion	20,000,000
GOG issue for investment in Norio PSC	46,317,740
Payment of services	500,000
Placing at 0.05p	77,800,000
	144,617,740

On the 3 July 2017, through an equity placing of 10,588,235 ordinary shares at a price of 0.85p per share, £90,000 of funds were raised in conjunction with £210,000 of convertible loan notes.

On the 1 August 2017, The company issued 70,000,000 ordinary shares at a price of 0.85 per share, for the acquisition of Satskhenisi Ltd and a 90% interest in the Satskhenisi PSC.

On the 31 August 2017, the company raised £250,000 of funds through the placing of 29,411,765 new shares at 0.85p per share.

On the 15 November 2017 each 5 Ordinary shares of 0.05p were consolidated into one Ordinary Share of 0.25p, resulting in a reduction in the number of Ordinary Shares from 489,841,048 to 97,968,209.

The issue of equity on AIM listing comprised of the following.

Issue of equity on AIM listing	Value (£)	Share issue price	No of shares
Shares issued on placing of £5 million	5,000,000	4p	125,000,000
GOG West Rustavi consideration	751,315	4p	18,782,870
GOG Norioskhevi consideration	187,829	4p	4,695,717
Conversion of loan notes	387,329	3.6p	10,759,132
Shares issued in lieu of services	73,667	4p	1,841,673
			161,079,392

On the 11 June 2018, The Company raised £5 million through the placing of 125,000,000 ordinary shares at 4p per share.

On the 11 June 2018 the Company issued a further 18,782,870 ordinary shares at 4p to Georgian Oil and Gas for a further 20% interest in the West Rustavi PSC.

On the 11 June 2018 the Company issued a further 4,695,717 shares at 4p to GOG as part of the purchase consideration for the Groups 100% interest in the Norioskhevi PSC.

On the 11 June 2018 the Company converted all of the existing convertible loan note balance through the issue of 10,759,132 shares at a discounted price of 3.6p.

On the 11 June 2018, the company issued 1,841,673 shares at 4p to various consultants and professional advisors in lieu of fees. This issue was apportioned between directors (1,057,500 shares of value £42,000), and consultants (784,173 shares of value £32,000).

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.

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.
Accumulated deficit	Cumulative net gains and losses recognised in the income statement and in respect of foreign exchange.

24. Warrants

	Number of Warrants	30 June 18 Weighted average exercise price	Number of Warrants	30 June 17 Weighted average exercise price
Outstanding at the beginning of the year	4,045,151	125p	5,000,000**	125p
Additions	8,863,000	4p	2,045,151	2.5p
Lapsed	–	–	(3,000,000)	2.5p
Share capital reorganisation effect	(1,765,525)	–	–	–
Outstanding at the end of the year	11,142,626	42p	4,045,151	125p

** This represents the effect on the number of warrants of the 50 for 1 share consolidation exercise.

As at 30 June 2018, all warrants were available to exercise and were exercisable at a price of between 4p and 125p. The weighted average life of the warrants is 2.7 years. The warrants charge represents 22 days' worth of valuation charge, as all warrants became exercisable on AIM admission (11 June 2018). The additions represent warrants issued on AIM listing, with terms ranging from 12 months to 5 years. The 2017 warrant additions were issued in lieu of director services, the replacement of 'like for like' warrants originally held in Goldcrest Resources Ltd.

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 £63,000 for the year ended 30 June 2018. The equivalent charge for the year ended June 2017 was nil.

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

	2018 £'000	2017 £'000
Share option scheme	63	–
Warrants charge	5	–
	68	–

Share Option Scheme

The Option Plan provides for an exercise price equal to the closing market price of the Group shares on the date of the grant. The vesting period varies between 6 months to 2 years. The options expire if they remain unexercised after the exercise period has lapsed and have been valued using the Black Scholes model. The options which are subject to the satisfaction of performance criteria relating to the compound annual increase in share price of the Group and comparing the Group share price to a similar selected Group of companies are valued using appropriate valuation models.

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

	2018 Options	2018 Weighted average exercise price	2017 Options	2017 Weighted average exercise price
Outstanding at beginning of year	1,200,000	£0.03	–	–
Granted during the year	22,497,717	£0.04	1,200,000	£0.03
Outstanding at the end of the year	23,697,717	£0.04	1,200,000	£0.03
Exercisable at the end of the year**	1,200,000	£0.03	–	–

** Please note that all the share options are issued to Directors of the Company. Due to the AIM listing restrictions, none of the vested share options can be exercised until 11 June 2019.

The exercise price of the share options exercisable at the year-end is £0.03 (2017: £nil). The weighted average contractual life of the share based payments outstanding at year end is 10 years.

The estimated fair values of options which fall under IFRS 2, and the inputs used in the Black Scholes Option 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	£0.03	£0.01	£0.03	84.00%	10	1.16%	0.00%
4 April 2018	4,400,000	£0.03	£0.04	£0.04	84.00%	10	1.34%	0.00%
11th June 2018	18,097,717	£0.03	£0.04	£0.04	84.00%	10	1.23%	0.00%

All share based payment charges are calculated using the Black Scholes model.

Expected volatility was determined by reviewing benchmark values from comparator companies.

26. Borrowings

	30 June 2018 £'000	30 June 2017 £'000
Short term loans – unsecured	45	37
Convertible loan note	–	210
	45	247

All loans are denominated in GBP (£) Sterling.

The majority of the year ended 30 June 2017 loan balance (£210,000) relates to a convertible loan note, issued on 27 June 2017 ('the Note') which carried a 10% coupon rate. Upon AIM admission event the Notes were automatically redeemed by the Company by the issue of ordinary shares at a 10% discount to the share price on admission to AIM. The derivative element of this loan note was immaterial.

During the year, £150,000 convertible loan note was issued which held a 10% interest rate. The loan note converted on AIM listing, at a 10% discount to listing price.

The Directors consider it appropriate to classify the 2018 loan balance of £45,000 as current. The interest is payable annually at the rate of 20%. There is no agreement on the period of the loan.

Movement in borrowings is analysed as follows:

	2018 £'000	2017 £'000
At 1 July	247	72
Proceeds from issue of loans	150	170
Interest accrued	32	5
Interest repaid	–	–
Conversion of convertible of loan notes	(384)	–
At 30 June	45	247

27. Financial instruments

The Board of Directors determine, as required, the degree to which it is appropriate to use financial instruments or other hedging contracts or techniques to mitigate risk. The main risk affecting such instruments is foreign currency risk which is discussed below.

There is no material difference between the book value and fair value of the Group cash balances, and the short-term receivables and payables because of their short maturities.

Credit risk

Financial assets which potentially subject the holder to concentrations of credit risk consist principally of cash balances. These balances are all held through a recognised financial institution. The maximum exposure to credit risk is £4,033,000 (2017: £215,000). The Group does not hold any collateral as security.

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

The Group has potential currency exposures in respect of items denominated in foreign currencies comprising transactional exposure in respect of operating costs and capital expenditure incurred in currencies other than the functional currency of operations. As foreign exchange movements are immaterial no sensitivity analysis has been provided.

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 to finance operations. The Company manages this risk by monitoring its financial resources and carefully plans its expenditure programmes. As there are no loans outstanding at the period end, except loans which mature in less than twelve months, no maturity analysis has been presented.

Capital

The Company considers its capital to comprise its ordinary share capital, share premium and accumulated deficit. In managing its capital, the Directors' primary objective is to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, through new share issues, the Group considers not only their short-term position but also their long term operational and strategic objectives.

Other than the 5:1 share consolidation in December 2017, there have been no significant changes to the Company's capital management objectives, policies and processes in the year nor has there been any change in what the Company considers to be its capital.

See note 22 for details of a post 30 June 2018 share consolidation.

28. Categories of financial instruments

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

	30 June 2018 £'000	30 June 2017 £'000
Liabilities at amortised cost	165	64
Loans and receivables	45	247
	210	311
Cash and cash equivalents at amortised cost	3,997	215
Trade receivables at amortised cost	105	213
	4,102	428

No collateral has been pledged in relation thereto.

29. Subsidiaries

At 30 June 2018, 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	
		2018	2017
GOG Norioskhevi Ltd	British Virgin Islands	100%	100%
Satskhenisi Limited	Marshall Islands	100%	–
GNV Inc	Bahamas	100%	–
Taoudeni Resources SARL*	Mauritania	–	100%
Ensign Resources**	Isle of Man	100%	100%

* Sold in the year

** In the process of liquidation

New Subsidiary – Nature of business

The principal activity of GNV Inc, Satskhenisi Limited and Norioskhevi Ltd is oil and gas extraction.

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

Registered Office

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

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

The registered office of GOG Norioskhevi Limited is Trident chambers, P.O.Box 146, Road Town, Tortola, British Virgin Islands, Registration No 1949997.

The registered office of Taoudeni Resources SARL is International House, 1-6 Yarmouth place, London W1J 7BU.

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

Taoudeni SARL was sold on the 8 November 2017. Please see note 11 for further detail.

30. Commitments

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

Operating lease commitment

UK operating lease commitment

At 30 June, the total of future minimum lease payments under non-cancellable operating leases for each of the following periods was:

	2018 £'000	2017 £'000
Within 1 year	22	–
Between 1 and 5 years	26	–
Total	48	–

The Group has entered into a 2 year term contract over its new office premises in central London.

Georgian Operating contract commitment

The Group's Georgian Operating Company contract with NOC contains a one-month notice termination period. The monthly cost is US \$17,500 USD, which is comprised of US \$5,000 for the Satskhenisi PSC and US \$12,500 for the Norioskhevi PSC.

31. Related party transactions

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

On 1 August 2017, Block Energy secured a 90% working interest in the Satskhenisi PSC via the acquisition of 100% of the share capital of Satskhenisi Ltd, a Marshall Islands registered company. Satskhenisi Ltd was bought from Iskander Energy Corporation for £595,000 consideration, paid in Block Energy Plc Ordinary shares. Roger McMechan is the CEO of Iskander Energy Corporation.

32. Subsequent events

On the 24 September the Group signed an agreement with JSC Norio Oil Company ('JSC NOC'), a Georgian drilling contractor, and Georgia Oil and Gas Ltd ('GOG'), a British Virgin Islands company and owner of drilling equipment in the Republic of Georgia, for the supply of drilling and workover equipment for the Company's 2018/2019 work programmes across its Georgian licence base.

On the 28 August 2018, the PSC terms for its West Rustavi licence were been ratified by the Government of the Republic of Georgia. The PSC will become effective as of 1 September 2018 and will allow Block to conduct planned operations within the Licence area.

On the 2 October 2018, Christopher Brown was appointed as non-executive director of the Company.

On the 5 October 2018 a Memorandum of Understanding was signed with Bago Ltd, one of the largest private gas suppliers and purchasers in Georgia, for a proposed offtake agreement for gas produced in the West Rustavi PSC.

Parent Company Statement of Financial Position

At 30 June 2018

63

	Note	2018 £'000	2017 Restated £'000	2016 Restated £'000
Non-current assets				
Investments	3	1	–	–
Intangible assets	4	–	654	–
		1	654	–
Current assets				
Trade and other receivables	5	3,058	617	331
Cash and cash equivalents	7	3,994	215	12
Total current assets		7,052	832	343
Total assets		7,053	1,486	343
Capital and reserves attributable to equity shareholders				
Share capital	9	1,675	1,217	1,048
Share premium		9,222	2,721	1,628
Other reserves		68	–	–
Accumulated deficit		(4,165)	(2,763)	(2,527)
Total equity		6,800	1,175	149
Current liabilities				
Trade and other payables	6	208	64	122
Borrowings	10	45	247	72
Total current liabilities		253	311	194
Total equity and liabilities		7,053	1,486	343

The Company has taken of S408 of the Companies Act 2006 by choosing not to present its individual Statement of Comprehensive Income and related notes that form part of these approved financial statements.

The Company's loss for the year from continuing and discontinued operations is £1,402,000 (2017: loss of £235,000).

The financial statements were approved by the Board of Directors and authorised for issue on 21 November 2018 and were signed on its behalf by:



Serina Bierer
Director



Paul Haywood
Director

The notes on pages 66 to 68 form part of these financial statements.

Parent Company Statement of Changes in Equity

At 30 June 2018

	Share capital £'000	Share premium £'000	Other reserve £'000	Accumulated deficit £'000	Total equity £'000
Balance at 1 July 2016	1,048	1,628	–	(2,527)	149
Loss for the year	–	–	–	(235)	(235)
Total comprehensive income for the year	–	–	–	(235)	(235)
Shares issued	169	1,110	–	–	1,279
Cost of issue	–	(17)	–	–	(17)
Total transactions with owners	169	1,093	–	–	1,262
Balance at 30 June 2017	1,217	2,721	–	(2,763)	1,175
Loss for the year	–	–	–	(1,402)	(1,402)
Total comprehensive income for the year	–	–	–	(1,402)	(1,402)
Share based payments	–	–	68	–	68
Shares issued	458	6,877	–	–	7,335
Cost of issue	–	(376)	–	–	(376)
Total transactions with owners	458	6,501	68	–	7,027
Balance at 30 June 2018	1,675	9,222	68	(4,165)	6,800

Parent Company Statement of Cashflows

For the year ended 30 June 2018

	Note	2018 £'000	Restated 2017 £'000
Operating activities			
Loss for the year before income tax		(1,402)	(235)
Non-refundable deposit received		–	(39)
Finance income		(1)	–
Finance expense		36	6
Share based payments expense		68	–
AIM admission costs		385	–
Net cash flow from operating activities before changes in working capital		(914)	(268)
Decrease/(Increase) in trade and other receivables	5	466	(615)
Increase in trade and other payables	7	59	291
Net cash flow used in operating activities		(389)	(592)
Investing activities			
Non-refundable deposit received		–	39
Finance income		1	–
Expenditure in respect of intangible assets		–	(422)
Inter-Group amounts (drawn down) / settled		(650)	283
Cash used in investing activities		(649)	(100)
Financing activities			
Issue of ordinary share capital		5,250	748
Costs related to issue of ordinary share capital		(761)	(17)
Interest paid		(36)	(6)
Convertible loan notes issued	10	360	170
Net cash from financing activities		4,813	895
Net increase in cash and cash equivalents in the year		3,775	203
Cash and cash equivalents at start of year		215	12
Effects of foreign exchange		4	–
Cash and cash equivalents at end of year		3,994	215

Notes to the Parent Company Financial Statements

For the year ended 30 June 2018

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) adopted by the European Union and in accordance with UK Law. 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.

Restatement

Following the review of the Ghanaian asset sale transaction, a prior year adjustment has been identified to reclassify £329,000 from the Company's prior year 'Held for sale' categorisation to Intercompany receivables. In the year ended 30 June 2017, this asset was re classified from intangible asset to intercompany receivables. The restatement was required as the £329,000 related to the Ghanaian mining asset which should have been recorded in the Ensign Resources Ltd accounts, and not the Company accounts.

The restatement does not impact on total assets, net assets or the accumulated deficit. The opening position for the 2017 year was affected by the restatement hence a third statement of financial position has been presented.

Investments

Investments are stated at their fair value at acquisition date and are reviewed at the end of each reporting period for impairment. Please refer to note 3 below.

2. Directors' Emoluments

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

The average monthly number of employees during the year was 2 (2017: 3).

3. Investments

Investments relate to the share capital held in subsidiaries of the Company (2018: £1,000), please refer to note 29 in the Group notes for more detail.

4. Intangible assets

	2018 £'000	2018 £'000 Exploration and Evaluation cost	2018 £'000 Total
Cost	Licences		Total
At 1 July 2017	617	37	654
Transfer to Subsidiary	(617)	(37)	(654)
At 30 June 2018	–	–	–

The transfer to subsidiary balances in the year, represent intangible costs paid by the Company on behalf of the subsidiaries. Ownership of these costs are now held in the respective subsidiaries.

	£'000	£'000 Exploration and Evaluation cost	£'000 Total
Restated Cost	Licences		Total
At 1 July 2016	329	–	329
Reclassifying to asset held for sale	(329)	–	(329)
Additions during the year	617	37	654
At 30 June 2017	617	37	654

5. Trade and other receivables

	2018 £'000	Restated 2017 £'000
Prepayments	4	6
Other receivables	100	539
Unpaid share capital	–	25
Amounts due from Group undertakings	2,954	47
	3,058	617

All of the above amounts are due within one year.

All trade and other receivables are denominated in GBP (£) Sterling. Amounts due from Group undertakings are interest free and repayable on demand.

6. Trade and other payables

	2018 £'000	2017 £'000
Trade and other payables	41	14
Accruals	82	50
Amounts due to Group undertakings	85	–
	208	64

All trade and other payables are denominated in GBP (£) Sterling.

7. Cash at bank

	2018 £'000	2017 £'000
Cash and cash equivalents	3,994	215
	3,994	215

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.

All cash and cash equivalents are denominated in GBP (£) Sterling.

8. Non-cash transactions

Details of non cash transactions can be found in note 20 of the consolidated financial statements.

9. Share Capital

Details of share capital and movements in the year are set out in note 22 to the consolidated financial statements.

10. Borrowings

Please refer to note 26 in consolidated notes. The movement in borrowings for the Company was the same as for the Group.

11. Financial Instruments

The Board of Directors determine, as required, the degree to which it is appropriate to use financial instruments or other hedging contracts or techniques to mitigate risk. The main risk affecting such instruments is foreign currency risk which is discussed below. Throughout the year ending 30 June 2018 no trading in financial instruments was undertaken (2017: Nil).

There is no material difference between the book value and fair value of the Company cash balances, and the short term receivables and payables because of their short maturities.

Market risk

Market risk arises from the Company'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).

Currency risk

The Company has potential currency exposures in respect of items denominated in foreign currencies comprising transactional exposure in respect of operating costs and capital expenditure incurred in currencies other than the functional currency of operations. As foreign exchange balances are immaterial no sensitivity analysis has been presented.

At the year end, the Company had cash balances of GBP£3,994,000 (2017: £215,000) which comprised of GBP Sterling.

Interest rate risk

The Company's cash and cash equivalents are subject to interest rate exposure due to changes in interest. As interest is not material no sensitivity analysis has been presented.

Capital

In managing its capital, the Company's primary objective is to maintain a sufficient funding base to enable the Company to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, through new share issues, the Company considers not only their short term position but also their long term operational and strategic objectives.

12. Categories of financial instruments

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

	30 June 2018 £'000	30 June 2017 Restated £'000
Liabilities at amortised cost	123	64
Loans and receivables	45	247
	168	311
Cash and cash equivalents at amortised cost	3,994	215
Trade receivables at amortised cost	3,054	611
	7,048	826

13. Commitments

Please see note 30 in the consolidated financial statements.

14. Related party transactions

At the end of year, the following subsidiaries owed the parent company for payments made recovered on their behalf.

- Taoudeni Resources SARL – £nil (2017: £7,000)
- GOG Norioskhevi Ltd – £1,346,000 (2017: £10,000)
- GNV Inc – £1,262,000 (2017: £nil)
- Satskhenisi Ltd – £728,000 (2017: £nil)

Ensign Ltd (Antubia resources) - £85,000 owed to Ensign (2017: £30,000 owed from Ensign Ltd).

Further detail on related party transactions can be found in note 31 in the consolidated financial statements. The disclosure of fees paid to consultancy companies for key management services can be seen in Remuneration report.

15. Subsequent events

Please refer to note 32 to the consolidated financial statements.



BLOCK
ENERGY PLC

9 Devonshire Square
London EC2M 4YF
www.blockenergy.co.uk