BLOCK ENERGY PLC

Annual Report and Financial Statements
18 Months Period Ended
31 December 2019

The Company's strategy is to become the leading independent oil and gas company in Georgia. It plans to develop and exploit its portfolio of low cost, high impact development assets in a proven region of Georgia, and to scale up its existing production and reserves via the implementation of efficient work programmes.

Contents

Officers and Advisors

Directors

Paul Haywood	Chief Executive Officer
Roger McMechan	Technical Director
William McAvock	Chief Financial Officer (appointed 16 September 2019)
Niall Tomlinson	Executive Director (resigned 30 November 2019)
Serina Bierer	Finance Director (resigned 21 January 2019)
Philip Dimmock	Independent Non-Executive Chairman
Timothy Parson	Director – Non-Executive (resigned 3 October 2018)
Christopher Brown	Director – Non-Executive (appointed 3 October 2018)

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Highlights

Equity placing

- In May 2019, Block Energy Plc completed a placing of 109,090,000 new Ordinary Shares, raising approximately £12 million, equivalent to $15.2 million, (before expenses) with institutional investors at a placing price of 11 pence, equivalent to $0.14, per share.

Acquisition and business growth

- The Group continued to grow its portfolio of oil and gas assets in Georgia by increasing its working interest in the West Rustavi Production Sharing Contract ("PSC") from 25% to 100% for total cash payments of $500,000 and the issue of 12,876,268 Ordinary Shares with a value $1,000,000.
- At 31 December 2019, Block Energy held three operating licences – Norio (100% working interest ("WI")), Satskhenisi (90% WI) and West Rustavi (100% WI).
- Following the period end, on 25 March 2020, the Company entered into a conditional sale and purchase agreement with Schlumberger B.V. ("Schlumberger") to acquire its subsidiary Schlumberger Rustaveli Company Limited ("SRCL"), which on closing will hold two PSCs in Georgia.
- Cash at 31 December 2019 was $6,494,000 (30 June 2018: $5,278,000).

Operations

- The Group successfully drilled two horizontal wells (WR-16aZ and WR-38Z) in its West Rustavi licence area. Tests from both WR-16aZ and WR-38Z showed encouraging production rates.
- Gas sales agreement signed with Bago LLC, one of the largest private gas suppliers and purchasers in Georgia, for the offtake of gas produced at the Company's flagship West Rustavi field at a price of $5.24 per MCF.
- Construction underway for an Early Production Facility ("EPF"), with capacity for 6 wells, to exploit Block Energy's contingent gas resources of over 600 BCF, with gas sales expected to commence in H2 2020.
- 100 km^2 of 3D seismic survey acquired over and beyond the entire area of the Company's West Rustavi licence with results exhibiting good subsurface imaging of the main producing and prospective formations in the licence.
- Prior to the recent shutdown to conserve oil that would otherwise be sold at a low price and gas that would otherwise be flared, the Group was producing 325 boepd from the West Rustavi field. It continues to produce approximately 20 bopd from the Norio and Satskhenisi fields.
- The Group maintains a strong focus on assuring Health, Safety and Environmental ("HSE") management.
- Secured an agreement with the national oil company, Georgia Oil and Gas Corporation ("GOGC"), for access to 90,000 bbls of capacity at GOGC's principal storage facility.
- Entered into an agreement with Georgia Oil and Gas Limited ("GOG") for the hire of drilling and workover rigs and equipment.

Strategy and Business Model

The Company's strategy is focused on it becoming the leading independent oil and gas company in Georgia. It plans to develop and exploit its portfolio of low cost, high impact development assets in a proven region of Georgia, and to scale up its existing production and reserves via the implementation of efficient work programmes.

Led by a management team with deep experience of the Caucasus region, and an operations team drawing on local and international talent, Block is currently adding two further exciting licences to its portfolio in the heart of Georgia's oil and gas-bearing Kura Basin.

Block's programme is designed to unlock West Rustavi's 0.9MMbbls of gross 2P reserves of oil, 38 MMbbls of gross unrisked 2C contingent resources of oil and 608 BCF of gross unrisked 2C contingent resources of gas (Source: CPR Gustavson Associates: 1 January 2018).

The core elements of the programme are to exploit existing fields, converting resources to reserves and reserves to production, boosted by the acquisition of additional licences, containing high-potential and proven fields.

We have made good progress over the 18 months period ended 31 December 2019:

- Sidetracked and put two West Rustavi wells on production.
- Acquired a 3D seismic survey in order to evaluate and rank development and appraisal well targets in West Rustavi.
- Negotiated oil storage and gas offtake agreements to serve Georgia's growing energy market.
- Continued to build our management and technical teams in Georgia and London.
- Entered into a gas sales agreement with one of Georgia's largest private gas supplier.
- Began the installation of an EPF to begin gas sales in H2 2020.
- Incorporated Block Operating Company LLC, which is 100% owned by the Company and became operator of all of the Company's PSCs on 1 September 2019.

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

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 present, no such agreements are contemplated.

Chairman’s Statement

During the 18 months period ended 31 December 2019, the Company has learnt valuable lessons whilst making significant progress in reaching its goal of becoming the leading independent oil and gas company in Georgia. Everyone at Block Energy has worked tirelessly to achieve its corporate and operational objectives.

A crucial milestone during the period was the signing of a gas sales agreement with Bago LLC. This agreement has paved the way for Block to install an EPF at West Rustavi, which will see gas sales commence in H2 2020. This timely addition to Block’s portfolio is ever relevant given the prevailing low crude oil prices, and means that Block will be able to gain revenue from its large gas resource at West Rustavi. The advent of gas sales will also align with Block’s commitment to high environmental standards, as it looks to cease gas flaring and commence supplying Georgia with a clean efficient fuel source, decreasing the consumption of gasoline and diesel in the country. Incidentally, the Company already uses a combination of electricity from the national grid and diesel to power its contracted drilling rig, keeping its carbon footprint to a minimum.

I am excited by the Company’s transaction with Schlumberger for two further licences, one with proven resources and reserves and another with excellent exploration potential.

Following the end of the accounting period, we have used the current period of low oil price to suspend production and conserve our valuable gas resources until the EPF is commissioned and gas sales can commence. Depending on the oil price, the Company will continue to produce and, if necessary, store oil from its Norio and Satskhenisi licences, as the quantity of gas produced from these fields is small.

As always, the health and safety of Block’s staff and its wider stakeholders are a number one priority. It was disappointing that we incurred one lost time incident in the period. But, overall, the safety record was good for a new company that has brought a number of innovative and modern technologies to Georgia.

In order to adhere to all the regulations and guidance laid down by the governments of Georgia and the United Kingdom to combat the COVID-19 crisis, most of our staff work from home but remain very effective. Our staff who have to attend the field maintain social distancing and have their temperatures measured and health checked on a daily basis.

The improvement of corporate governance continued during the period with the establishment of a Technical Committee and more frequent meetings of the board and its committees. We continue to adhere to the Quoted Company Alliance’s (“QCA”) Corporate Governance Code for Small and Mid-Size Quoted Companies 2018 version (“QCA Code”). Furthermore, I plan to bolster the stewardship of the Board through the appointment of a well-qualified, third non-executive director.

In November 2019, Niall Tomlinson retired from the Board to concentrate on his interests in the mining sector. Our thanks are due to him for his contributions to the founding of the Company and to building corporate governance. We wish him well with his future endeavours. We welcome William McAvock, Chief Financial Officer, to the Board and the Company. We are already benefitting from his knowledge and experience of managing the financial aspects of an international oil and gas business.

We are prepared for an extended period of weak demand for oil and low prices well into next year. However, our fundamentals are strong; we have learnt a number of lessons from our initial operations and, even in the lock down, continue to implement our programme. We are accelerating the exploitation of gas resources in West Rustavi and are planning the increase of oil production and exploitation of gas resources in the blocks being acquired from Schlumberger. We are confident the market will recognise our inherent value and re-rating potential.

I would like to thank all our team for their focus, skill and hard work, particularly in today’s difficult circumstances. We look forward to updating shareholders with further news in the months to come.

Philip Dimmock
Chairman

Chief Executive Officer's Statement

Introduction

We are an agile energy start up, making intelligent use of a broad skill set and deep understanding of Georgia. Our position is further complemented by the use of efficient drilling technology and our focus on establishing the Company as Georgia's leading independent oil and gas operator. We draw on the collective knowledge of the industry to source appropriate techniques and technologies for opening-up the full potential of our Georgian assets.

Our Company successfully listed on AIM in June 2018, raising £5 million ($6.6 million) to perform low-cost development operations, which provided early confirmation of the potential in our West Rustavi licence. After strong test results at the field's appraisal well WR-16aZ, we undertook a £12 million ($15.2 million) fundraise to execute a development and acquisition programme targeted at accelerating our plan to increase West Rustavi's oil production and appraise its gas potential.

Our enhanced programme has allowed us to sidetrack additional wells, expand the field's infrastructure with new processing facilities and carry out a 3D seismic survey of West Rustavi's subsurface to identify optimal locations for new oil and gas wells. The results of the survey are currently under review.

We have also negotiated oil storage and gas offtake agreements and continue to strengthen our management and operations teams across the Group.

Serving Georgia's growing energy market

Our oil and gas sales serve Georgia's intense demand for energy. Georgia has achieved strong economic growth over the past decade, growing at an average annual rate of 5%. The country relies on gas for 40% of its total energy use and is highly dependent on gas imports from neighbouring countries. Local gas production currently accounts for less than 0.5% of annual consumption.

Building relationships in Georgia

In addition to pursuing our West Rustavi drilling programme, we have continued production at our Norio and Satskhenisi fields. We have further consolidated our presence in country by establishing an operating subsidiary, Block Operating Company LLC, in Tbilisi.

Until COVID-19 curtailed travel, our directors regularly travelled to the country to oversee and develop our Georgian management and mature our excellent relationships with local and national tiers of government.

Our Company continues to work closely with the Georgian Technical University ("GTU") to help train the next generation of Georgian production engineers through a programme that will allow GTU students to visit Block's fields to gain hands-on experience of our operations.

Future horizons

Following the end of the period, Block Energy entered into a conditional sale and purchase agreement with Schlumberger to acquire its Georgian subsidiary and thereby significantly increase its acreage position in Georgia from 82 km^2 to 2,622 km^2. The Company will acquire producing Block XI^B and exploration Block IX, which together bring 200 bopd of production and 64 million boe of proven and probable oil and gas reserves to Block's portfolio as well as many synergies between the two businesses. Block XI^B is Georgia's most productive block, with over 180 million bbls of oil produced from the Middle Eocene, peaking in the 1980s at 67,000 bopd.

We remain an ambitious and growing oil and gas start-up, ever alert to fresh opportunities. We look forward to sharing news of our progress in Georgia and beyond.

Paul Haywood
Chief Executive Officer

Chief Financial Officer's Statement

This report covers the 18 months period ended 31 December 2019, because, in June 2019, in order to bring its financial reporting into line with peer companies and to carry out its year-end work when there is a seasonal reduction in operational activities, the Company changed its accounting reference date from 30 June to 31 December. Therefore, the current 18 months period ended 31 December 2019 is not directly comparable with the prior 12 months period ended 30 June 2018.

During the 18 months period ended 31 December 2019, Block Energy Plc continued to build its production and development base whilst maintaining a strong balance sheet.

Following the period end, owing to the combined impacts of lower demand for oil caused by COVID-19 and the Russia–Saudi Arabia oil price war, the Brent oil price collapsed from over $50 per barrel at the start of March 2020 to less than $20 per barrel in April 2020. The Company has responded to the low oil price by postponing all new capital expenditure and reducing the monthly cash burn in Georgia by 40% from $107,000 to $64,000 through a combination of cost-cutting and deferral of operating and administration expenses. In the UK, directors and employees have agreed a scheme in which, with effect from 1 April 2020, 40% of their salaries will be paid in nil-cost options to acquire ordinary shares in the Company, reducing monthly cash salary costs. Options will be priced at a volume-weighted average price ("VWAP") over the monthly salary period and the first options are expected to be based on the VWAP for the month of April 2020 and issued in early May 2020.

Balance sheet – acquisitions and asset growth

Block Energy Plc increased its working interest in the West Rustavi PSC from 25% to 100% for total consideration of $1,500,000, comprising cash payments of $500,000 and the issue of 12,876,268 Ordinary Shares with a value of $1,000,000.

In May 2019, Block Energy Plc completed a placing of 109,090,000 new Ordinary Shares, raising approximately £12 million (equivalent to $15.2 million) before expenses with institutional investors at a placing price of 11 pence, (equivalent to $0.14) per share.

The Group's financial position has changed significantly over the past 18 months, with Group net assets increasing from $9,200,000 as at 30 June 2018 to $20,610,000 as at 31 December 2019 owing to the $15.2 million cash raised in the equity placing, much of which had been spent and capitalised during the period, including the costs of drilling two wells and the 3D seismic data acquisition at West Rustavi. At the end of the period, the Group's cash balance was $6,494,000 (2018: $5,278,000).

Income statement

The Group's revenue increased to $314,000 (2018: $179,000). The current period revenue of $314,000 was for 5,210 barrels of oil, which equates to average revenue of $60.29 per barrel, from West Rustavi, Norio and Satskhenisi.

In addition, the Group had over 14,000 barrels of crude oil inventory as at 31 December 2019. Following the period end, the Group sold 6,879 barrels of crude oil inventory for net revenue of $325,083, which equates to average revenue of $47.26 per barrel.

The loss for the period was $6,130,000 as compared with a $1,835,000 loss in the prior year. The Company listed on AIM on 11 June 2018, just before the end of the prior accounting year. The main reasons for the increase in the loss are the income statement covers a longer period of 18 months compared with 12 months in the prior period and includes new costs associated with an AIM-listed company that has raised significant funding and embarked on a capital expenditure programme and increased operational activities in Georgia.

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

Liquidity, counterparty risk and going concern

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

The directors have prepared cash flow forecasts for a period of 14 months from the date of signing of these financial statements. The Group’s forecasts include a number of enacted cost saving measures and the forecasts are reviewed regularly in order to assess whether any further actions are required. The Group is in the final stages of negotiating to engage Bago LLC to construct a gas pipeline and to revise the sales agreement for West Rustavi gas. The forecasts assume the gas pipeline will be constructed and the gas will be sold, and indicate the Group has sufficient funds to complete the construction of the gas project and to meet its liabilities as they fall due until April 2021. The financial benefit of any additional capital projects would be assessed against capital requirements and balanced with ensuring that the Company can continue to meet its liabilities and commitments through to April 2021. The Parent Company’s forecasts are considered together with the Group’s forecasts.

The directors note that COVID-19 has had a significant negative impact on the global economy and oil prices have fallen significantly, which may mean it is harder to secure additional funding than it has historically been. The global pandemic may also bring practical challenges to the timetables for the construction of the gas pipeline and the consequent sale of gas. The directors are confident that current capital projects are funded and have a reasonable expectation that they could secure additional funding, if needed, to fund additional capital projects. However, these conditions are necessarily considered to represent a material uncertainty which may cast significant doubt over the Group’s ability to continue as a going concern. Whilst acknowledging this material uncertainty, the directors remain confident of making further cost savings when required and therefore the directors consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

Restatement of prior year financial statements

The comparative figures have been restated for two prior period adjustments relating to deferred consideration and share options issued. Please refer to note 4 of the financial statements for details of the restatements.

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 $6,030,000 (2018: loss of $1,835,000).

The Group has net assets of $20,610,000 (2018: net assets of $9,200,000).

The directors do not recommend the payment of a dividend (2018: nil).

William McAvock
Chief Financial Officer

Technical Director's Statement

During the 18 months period ended 31 December 2019, we have accomplished the following:

Field operations

West Rustavi:

- Drilled two horizontal sidetrack wells resulting in 2019 production of 7,500 bbls of oil. In the first quarter of 2020, West Rustavi produced 10,500 bbls of oil.
    - Both horizontal sidetracks tested individual rates in excess of the forecast rates, even though choke-constrained, indicating highly productive wells. This confirmed the Company's thesis that horizontal wells in the naturally fractured Middle Eocene reservoirs will be many times more productive than the legacy vertical wells. The Company remains confident that an average initial production rate of at least 300 boepd is attainable from future development wells, as demonstrated by well WR-38Z.
    - The proportion of oil, gas and water from the wells is different from forecast. The wells produce significantly more gas than expected and initial water cuts are also higher, at the expense of oil production.
    - Both wells were shut-in during the month of April 2020 to conserve gas and eliminate flaring.
    - Prior to shut-in during April 2020, the West Rustavi wells were producing 325 boepd. A workover at WR-16aZ is planned for H2 2020, when the gas sales system is in place.
- Acquired and processed a high quality 100 km^2 3D seismic survey giving full-fold coverage over the entire West Rustavi licence area. This 3D seismic will provide the company valuable insights regarding the placement of future development wells thus further increasing the likelihood of highly productive and economic horizontal wells.
- Designed and purchased an EPF, including natural gas processing, to be delivered to Georgia during Q2 2020. Initial gas throughput rates are expected to exceed 1 MMCF/d in H2 2020.
- Conducted the civil works to prepare the WR-30 wellsite to re-test a legacy natural gas discovery in the Lower Eocene.

Norio/Satskhenisi:

- Completed four workovers, two of which used micro-drilling technology to improve well inflow. Initial production results were an incremental 60 bbl/d.
- During 2019, the fields produced a combined total of 9,300 bbls of oil.
- The facilities at Norio were upgraded to conform with Georgian state and Block Energy corporate standards.

Technical and operations team

We have continued to build the technical team with geoscientists, engineers and operations staff;

- A sub-surface team leader with 40 years' of geoscience experience is managing the processing and interpretation of the West Rustavi 3D seismic survey.
- A senior development geologist with more than 30 years' experience in oil and gas field development and exploitation, as well as extensive experience in new ventures and reserve evaluations.
- The full-time assignment of an operations manager from North America to Georgia to oversee workover, testing and production operations.
- A reservoir engineer to lead well test analysis and well performance predictions.

Health, safety and environment

The Company has continued to upgrade equipment, training and standards across its operations:

- In 2019, a total of 260,160 man-hours were worked in the field, comprising 139,492 man-hours worked by the Company’s field staff and 120,668 man-hours by contractors. During this time, the Company recorded one lost time incident, two high potential incidents and three minor contained oil releases (less than 250 litres released).
- All employees in Georgia received training on basic first aid and the drilling crews received specialist drilling operations training from the local technical university.
- A doctor attended the field during seismic and drilling operations on a full-time basis to provide continuous emergency support as well as daily drug and alcohol testing.

Equipment and services

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

- The Company assumed direct control of operations and logistics by establishing its own operating Company, Block Operating Company, replacing the previous sub-contractor.
- A one-year rig contract providing continued access to the same drilling and workover equipment we hired in 2018, namely a ZJ40 drilling rig (1260 horsepower) and an A50 workover rig, on a bare charter basis.
- Imported two modern refurbished three phase test separators for the flow back and testing operations of the high-pressure wells in West Rustavi. These separators are operated by BOC and one of these separators will become part of the EPF at the West Rustavi field.

Operations subsequent to the period end

In 2020:

- The third horizontal sidetrack well in West Rustavi, WR-51Z had to be abandoned, as the existing wellbore condition was found to be too poor to support the planned horizontal drilling operation.
- The processing of the 3D seismic data is yielding excellent images of the subsurface in the West Rustavi licence area with full interpretation results expected in Q2 2020.
- The EPF and associated gas processing facilities for West Rustavi is in transit to Georgia from Canada. The installation of the EPF, in combination with the 10km gas sales pipeline to be installed by Bago, will enable gas sales and provide monthly cash flow.
- The COVID-19 pandemic has had a significant impact on operations. In their efforts to contain the spread of the virus, the Georgian state has severely constrained both local and international travel. Recent communications from the Georgian state indicate a schedule of gradual loosening of restrictions from now through to mid-July.

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 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:		
• Regional tensions could have an adverse effect on the local economy and our business	Georgia shares borders with Russia, Azerbaijan, Armenia and Turkey and could be adversely affected by political unrest within its borders and in surrounding countries. In particular, Georgia has had ongoing disputes in the breakaway regions of Abkhazia and the Tskhinvali Region/South Ossetia, and with Russia, since Georgian independence in 1991. These disputes have led to sporadic violence and breaches of peacekeeping operations. Escalation of these issues could impact the Group operationally, logistically and ultimately financially.	The Board monitors all political developments on an ongoing basis. This ensures swift reaction should it be required.
Financial Risks:		
• Currency exchange rate fluctuations may negatively affect Block Energy	The Group's consolidated financial statements are presented in United States dollars and certain ongoing management costs will be denominated in British pounds sterling. The markets for the commodities produced are typically listed in US dollars and so Block Energy expects that the majority of its future revenues and operating expenses will be in US dollars, British pounds sterling and Georgian Lari. Consequently, Block Energy will be exposed to ongoing currency risk. Block Energy may also have operating expenses denominated in another currency. Consequently, changes in the exchange rates of these currencies may negatively affect the Group's cash flows, operating results or financial condition to a material extent.	Block Energy does not intend to hedge its cash resources against risks associated with disadvantageous movements in currency exchange rates. Therefore, currency exchange rate fluctuations may negatively affect the Group. However, Block will endeavour to immediately convert funds raised in pounds sterling to US dollars as a natural currency hedge to fulfil operational work plans, and will continue to place money market orders in order to take advantage of favourable currency fluctuations.
• The price of oil or gas may decrease significantly	Continued decreases in the oil or gas price over a sustained period might negatively affect the Group's cash flows, operating results or financial condition to a material extent	The Board has planned for sustained period of low oil or gas prices. The Board introduced measures in April 2020 (e.g. postponement of capital expenditure, cost reductions and cost deferrals) and would take further measures as and when required.

Description	Impact	Mitigation
Financial Risks: continued		
• Substantial capital requirements and access to funding might be limited	The Company's development strategy will require significant expenditure to fully exploit its potential. The Company will need to generate free cash flow from its operations and raise debt or equity funding to be able to finance these costs. If the Company's revenues do not recover or its reserves decline, it may have limited ability to expend the capital necessary to undertake or complete future drilling programmes and may require additional financing to do so. If Block Energy is unable to raise funding to support ongoing operations and to fund capital expenditure, it may limit the Company's growth or may have a material adverse effect upon the Company's financial condition, results of operations or prospects. The ability of Block Energy to arrange financing in the future will depend in part upon the prevailing capital market conditions, 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.	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. The Company maintains regular reporting structures, so that all issues are quickly identified by the Board, be it operational or financial in nature.
• Project Capital Cost Performance	Higher costs might negatively affect the Group's cash flows, operating results or financial condition to a material extent	To gain the most competitive pricing, control costs and limit overruns, the Group will negotiate lump-sum pricing for services, wherever possible, and obtain quotations from multiple suppliers of materials and services.

Description	Impact	Mitigation
Operational Risks:		
• Poor production performance	Less cash flow than forecast from operations might negatively affect the Group's cash flows, operating results or financial condition to a material extent.	The Group has a portfolio of projects with varying risk, capital and production profiles, which enables it to spread the risk across its three licences.
• 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 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.
• The Company's proposed development plans are subject to several operational risks	Both the drilling and workover programmes that have been and continue to be carried out by the Group involve potentially complicated and difficult technical operations with which there are inherent risks. These include human error by the drilling operator, equipment failure, mistakes in the planning of the operations and the encountering of unforeseen difficulties within field operations.	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.
• Global pandemic negatively impacts operations	If the global pandemic results in a lockdown or state of emergency being declared, it could result in the Group having to cease its operations, which might negatively affect the Group's cash flows, operating results or financial condition to a material extent.	The Board has planned for such a period of cessation of operations. The Board introduced measures in April 2020 (e.g. postponement of capital expenditure, cost reductions and cost deferrals) and would take further measures as and when required.

Description	Impact	Mitigation
HSE Risks:		
• Accident and Incidents associated with operations	Serious accidents can result in shut down of operational sites and loss of credible operator reputation/licence.	The Group carries out frequent inspections of operations by HSE staff, personnel safety training, daily worksite safety meetings, improvements to operating equipment and assignment of proper personal protection equipment to all field worksite personnel. In response to the lost time incident in 2019 and to prevent the future occurrence of a similar incident, the Company upgraded well-site equipment and invested in additional training of personnel.
• Environmental contamination caused by oil and water spills	Increased operating expenditures due to clean-up costs and loss of production revenue due to intermittent shut-downs and less oil to sell if it's being dumped on the ground. Also, frequent spills can lead to fines being levied by the state.	The Group will continue to repair and upgrade its production facilities at its oilfields to reduce the risk of spills due to equipment failure. Improved operating procedures through training of operations personnel to avoid the spill situations.
Organisational Risks:		
• Dependence on key relationships including, inter alia, the State and GOGC	The success of the business of the Group and the effective operation of the Group's interests in Georgia is dependent in part on good relationships and co-operation with these parties. The State is a counterparty to the Group's three PSCs. Accordingly, if the State, its Agency and/or the national oil company, GOGC, are not able to co-operate with each other or the Group, it could have an adverse impact on the business, operations and prospects of the Group.	Management maintains regular communication with the State, its Agency and GOGC.

Description	Impact	Mitigation
Organisational Risks continued:		
• Dependence on key executives and personnel, employee retention and recruitment	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.	Executive directors have notice periods of no less than three months to ensure sufficient time to handover responsibilities in the event of a departure. The Remuneration Committee regularly evaluates compensation and incentivisation schemes to ensure they remain competitive.

The strategic report was approved by the directors and signed on behalf of the Board on 30 April 2020.

Paul Haywood
Chief Executive Officer
30 April 2020

Statement of Corporate Responsibility

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

Impact of culture on decision-making

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 CR 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").

Subsidiaries

There are no qualifying UK subsidiary companies to report on in their own right.

Health, safety, environmental and social performance

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

- As an integral part of our business, identify, assess and manage the HSES risks to people, the environment and assets in order to avoid adverse direct or indirect effects from our operations.
- Ensure that our operations comply, as a minimum, with applicable health, safety, environmental and social laws and regulations, as well as best practicable industry standards.
- Maintain high ethical standards in carrying out business activities.
- Provide necessary leadership and resources to enable effective HSES management throughout our organisation.
- Prevent and minimise the impact of our operations on the environment.
- Ensure continuous improvement of HSES performance 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.

Stakeholder engagement

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

Stakeholder	Reason for engagement	How we engage
Employees: Our capacity to design and execute our strategy depends on the health, development and retention of our dedicated and skilled staff.	Transparent and regular communications with staff is essential for ensuring understanding of commitment to the Company's objectives. As an oil and gas production company we have particular health, safety and environmental obligations (see 'Communities and environment' below).	London staff have daily team meetings. International team join a weekly dial-in meeting. The directors make regular trips to Georgia to work with our operations staff onsite. The Executive team has regular one-on-one meetings with every staff member. Other elements are: Training and development sessions (on HSE, compliance, event prevention); and corporate benefits.
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 and 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 channels. Regular campaign of outreach to shareholders, including 1-2-1 sessions with top 10 shareholders.
Industry bodies, local and national governments. Our services must meet certain legal and regulatory requirements.	We work hard to meet our regulatory obligations to retain our good standing with regulators, the Georgian government, and the wider oil and gas sector. Our relationship with the local and national government is a key to our success and has taken a long time to develop.	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 (MAR) 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 work with state and local government to support the communities in the areas where we operate and support community programmes.	We have appointed an experienced professional to develop, enforce and oversee our HSE policy. HSE is the first item discussed during the operations section of our monthly board meeting. Our Technical Director also provides an HSE update during our weekly team meeting. Our London office operates a recycling policy for paper and packaging. We intend to extend this policy to our Georgian offices.
Suppliers. We engage contractors and purchase from a wide range of suppliers.	We must honour our obligations to the staff of the companies that we contract, and ensure they are aware of the HSE and regulatory framework within which we operate.	We integrate our MAR and HSE policies into all agreements entered into by our contractors. We have a robust financial process for settling our invoices for contractors and all other service providers. We take care to ensure we source products and services from ethical suppliers.

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

Health, safety and environment

Our operations are conducted within a robust Health, Safety and Environment (“HSE”) framework. We have employed a full time HSE advisor to work onsite in Georgia with our Georgian HSE manager to design and enforce our policy. The Board has taken on the responsibility of formulating the HSE Policy and establishing an HSE Management Plan for the remainder of 2020. It monitors performance against the Plan every month, assisted by regular reports from the HSE advisor. Any serious incident or high potential near miss will immediately be brought to the attention of the Board which will then oversee the appropriate remedial action.

Climate change

For our sector, there is a keen interest from several stakeholders and investors on the theme of climate change and we can assure them that Block is wholly committed to good environmental stewardship. We have a robust approach to corporate responsibility and sustainability issues, underpinned by our commitment to high standards of health and safety and environmental stewardship. Consistent with our strategy, one of our operational focuses in 2020 is the installation of a gas processing facility in West Rustavi that will greatly reduce the emissions from the flaring of natural gas associated with the oil production. This will have a positive impact upon the carbon footprint of the output and help reduce carbon dioxide emissions.

Paul Haywood
Chief Executive Officer

Board of Directors

The current Board consists of five directors: two independent non-executive directors, one with the role of Chairman, and three executive directors. There are also additional succession plans being developed, as outlined in the Nominations Committee Report on page 33.

Paul Haywood | Chief Executive Officer

Committee memberships: Nominations Committee; Technical Committee

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

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

Roger McMechan | Technical Director

Committee memberships: Technical Committee

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.

Key skills and competencies: operational oil and gas experience, Georgia knowledge and contacts, and opportunity evaluation.

William McAvock | Chief Financial Officer

Committee memberships: Disclosure Committee

William has more than 13 years' experience in strategic and operational finance roles within several listed natural resources groups, including Gulf Keystone Petroleum Ltd, International Petroleum Ltd, African Minerals Ltd and Adastra Minerals Inc, where he took leading roles in establishing and managing financial systems in Iraq, Russia, Kazakhstan, Niger, Sierra Leone and the Democratic Republic of Congo. William is a qualified Chartered Certified Accountant and holds a BA (Hons) in Accounting from London Guildhall University.

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

Philip Dimmock | Non-Executive Chairman

Committee memberships: Audit Committee (Chair); Disclosure Committee (Chair); Nominations Committee (Chair); Remuneration Committee; Technical Committee

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.

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

Christopher Brown | Non-Executive Director

Committee memberships: Audit Committee; Nominations Committee; Remuneration Committee (Chair); Technical Committee (Chair)

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

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

Report of the Directors

The directors present their report and the audited financial statements of Block Energy Plc (“the Group”) for the 18 months period ended 31 December 2019.

Principal activity

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

Incorporation and admission to trading on AIM

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

Results and dividends

The results for the 18 months period are set out on page 44.

This report covers the 18 months period ended 31 December 2019, because, in June 2019, in order to bring its financial reporting into line with peer companies and to carry out its year-end work when there is a seasonal reduction in operational activities, the Company changed its accounting reference date from 30 June to 31 December. Therefore, the current 18 months period ended 31 December 2019 is not directly comparable with the prior 12 months period ended 30 June 2018.

At 30 June 2019, to enable easier comparison with most of its oil & gas sector peer group, the presentational currency for the consolidated accounts was changed from the pound sterling to the United States dollar with effect from 1 July 2017. The current and comparative period balances have been translated using the average exchange rate for the year (2019: $1.29702, 2018: $1.34497) for the Statement of Comprehensive Income and the period end date exchange rate (31 December 2019: $1.26992, 30 June 2018: $1.32050, 30 June 2017: $1.29946) for the Statement of Financial Position, except for share capital, which was translated using historical exchange rates.

The directors do not recommend payment of a dividend (2018: $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 6.

Following the period end, on 25 March 2020, the Company entered into a conditional sale and purchase agreement with Schlumberger to acquire its subsidiary Schlumberger Rustaveli Company Limited, which holds three production sharing contracts in Georgia.

Also following the period end, owing to the combined impacts of lower demand for oil caused by COVID-19 and the Russia–Saudi Arabia oil price war, the Brent oil price collapsed from over $50 per barrel at the start of March 2020 to less than $20 per barrel in April 2020. The Company has responded to the low oil price by postponing all new capital expenditure and reducing the monthly cash burn in Georgia by 40% from $107,000 to $64,000 through a combination of cost-cutting and deferral of operating and administration expenses. In the UK, directors and employees have agreed a scheme in which, with effect from 1 April 2020, 40% of their salaries will be paid in nil-cost options to acquire ordinary shares in the Company, reducing monthly cash salary costs. Options will be priced at a VWAP over the monthly salary period and the first options are expected to be based on the VWAP for the month of April 2020 and issued in early May 2020.

The directors note that COVID-19 has had a significant negative impact on the global economy and oil prices have fallen significantly, which may mean it is harder to secure additional funding than it has historically been. The global pandemic may also bring practical challenges to the timetables for the construction of the gas pipeline and the consequent sale of gas. The directors are confident that current capital projects are funded and have a reasonable expectation that they could secure additional funding, if needed, to fund additional capital projects. However, these conditions are necessarily considered to represent a material uncertainty which may cast significant doubt over the Group’s ability to continue as a going concern. Whilst acknowledging this material uncertainty, the directors remain confident of making further cost savings when required and therefore the directors consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

Risk management

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

Principal risks and uncertainties

The principal risks the Board have reviewed are disclosed on pages 11 to 15 of the Strategic Report.

Share capital

Details of shares issued by the Company during the period are set out in Note 24 to the financial statements.

Directors and directors' interests

The directors of the Company who served during the 18 months period ended 31 December 2019 are listed below, and the current Board members' biographies are on pages 19 to 20.

Paul Haywood	**Chief Executive Officer**
Roger McMechan	Technical Director
William McAvock	Chief Financial Officer (appointed 16 September 2019)
Niall Tomlinson	Executive Director (resigned 30 November 2019)
Serina Bierer	Finance Director (resigned 21 January 2019)
Philip Dimmock	Independent Non-Executive Chairman
Timothy Parson	Director – Non-Executive (resigned 3 October 2018)
Christopher Brown	Director – Non-Executive (appointed 3 October 2018)

Details of directors' interests in shares are disclosed on page 38.

Directors' and officers' liability insurance

The Group provided directors' and officers' liability insurance at a cost of $7,000 (2018: $2,000).

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as 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.

Governance statement

We have chosen to adhere to the Quoted Company Alliance's Corporate Governance Code for Small and Mid-Size Quoted Companies 2018 version. Our full statement of compliance with the QCA Code is provided in the Governance Report from pages 25 to 38.

Engagement with employees in the UK

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

Engagement with stakeholders

This is discussed in the Statement of Corporate Responsibility on pages 16 to 18. Furthermore, the Board has appointed Chris Brown to serve as its Employee Representative.

Engagement with shareholders

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

Political contributions

During the 18 months period ended 31 December 2019, political donations totalled $Nil (2018: $Nil).

Financial instruments

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

Budgets are regularly prepared and fund-raising initiatives undertaken as and when required. Risk is inherent in the nature of the business and is managed to the best of the Board's ability. Further detail on financial instruments is shown in note 30.

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 30 April 2020.

Paul Haywood
Director
Date: 30 April 2020

Corporate Governance Statement

Introduction

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

Corporate governance was improved during the current period with the establishment of a new Technical Committee of the board and more frequent meetings of the board and its committees. The Company's succession plans include greater diversity and the recruitment of a third independent non-executive director.

QCA Corporate Governance Code (2018)

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

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

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

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

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

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

- The Company has raised a total of £17 million ($21.8 million) to fund a multi-well drilling programme to accelerate exploration and production at West Rustavi. Two wells have been horizontally sidetracked, both of which are on production. A 3D seismic survey of the field has been acquired to identify optimal drilling locations. Storage facilities have been upgraded, and a gas offtake agreement secured.

- Successful execution of Block's plan requires a management and technical team with extensive knowledge of Georgia's oil and gas sector and its legal and regulatory environment. Block is led by a management team with deep and wide experience, with networks both in Georgia and across the international oil and gas industry. One of our shareholders, Georgia Oil & Gas Limited ("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 suitable for 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. In meeting these challenges, Block is bringing the most cost-efficient technology that the international oil and gas industry has to offer to Georgia. A state-of-the-art 3D seismic survey of West Rustavi has been completed, the results of which are being analysed by an experienced technical team. We have recruited a highly skilled and experienced technical team, drawing on specialist consultants as required, to design and implement horizontal sidetracking operations at West Rustavi. And we have selected an enhanced perforation technology that our research indicates will be ideal for overcoming legacy wellbore damage, able to bore multiple small holes from the wellbores and circumvent historic issues.

- All our operations are conducted within a developing robust Health, Safety and Environment ("HSE") framework. The Board has set a number of short-term objectives to bring the legacy facilities up to industry standards and has recruited an industry professional with decades of experience overseeing HSE in Georgia for multinational oil and gas companies as a full time HSE advisor. He is working onsite to further develop and enforce our policies.
- The Board recognises the critical importance of developing effective communications channels with current and prospective investors. We regularly update the market as appropriate with RNS 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 investor news channels. We also distribute our RNS announcements and other Block news through social media and a mailing list subscription service, and continue to make the Company's business case at investor meetups and other events around the UK. All of our communications are available on our website and social media channels. We intend to meet our major institutional investors on a regular basis and, beyond the Annual General Meeting of shareholders, to hold investor days periodically.
- The Company contracts an experienced financial communications company to assist with 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 have recently identified two further Georgian licences operated by Schlumberger and have entered into a conditional sale and purchase agreement to acquire them. We are an ambitious, flexible and open-minded operator, alert to fresh opportunities for applying the latest production and exploration technologies and processes to take advantage of discoveries.

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

The Board strives to keep shareholders informed with clear and transparent information on the Company's operations, strategy and financial position. Details of all shareholder communications are provided on the Company website in accordance with 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 Block's social media – Twitter and LinkedIn – and the website's 'Media' section.

Primary responsibility for investor relations rests with the Chief Executive Officer, supported by the other directors. Since Block began trading on AIM on 11 June 2018, the Company has used multiple channels to understand the needs and expectations of its shareholder base. The table below summarises the communications the Company has undertaken during the last six months of 2019 with current and potential investors in addition to regular RNS announcements:

Date	Activity	Participants
12 Nov 19	TD records series of short operations videos for social media	TD
31 Oct 19	CEO and TD presentations given at AGM	CEO, TD
25 Sep 19	CEO and TD give video presentation on operations at well WR-16aZ	CEO, TD
3 Sep 19	Well 38Z operations video published to social media	TD
13 Aug 19	NED Chris Brown interviewed by Proactive Investors	NED
12 Aug 19	NED Philip Dimmock interviewed by Proactive Investors	NED
7 Aug 19	CEO interviewed by Vox Markets and Proactive Investors	CEO
15 Jul 19	CEO interviewed by IG TV and Proactive Investors	CEO
11 Jul 19	CEO presents at LSE Investor Briefing	CEO
10 Jul 19	CEO interviewed by ValueTheMarkets	CEO
8 Jul 19	CEO interviewed by Total Market Solutions	CEO
2 Jul 19	CEO interviewed by Proactive Investors	CEO
27 Jun 19	CEO presents at Amati Investor Afternoon	CEO
29 May 19	CEO interview with Total Market Solutions	CEO
24 May 19	CEO interview with IG TV	CEO
22 May 19	CEO interview with Vox Markets	CEO
21 May 19	CEO interview with Proactive Investors and Vox Markets	CEO
25 Apr 19	CEO interviewed by IG TV on positive production test at West Rustavi well 16aZ	CEO
23 Mar 19	CEO video Q&A with Vox Markets	CEO
12 Mar 19	CEO interviewed by Proactive Investors on agreement to take 100% Working Interest in West Rustavi field	CEO
29 Jan 19	CEO interviewed by Proactive Investors about West Rustavi horizontal sidetrack	CEO

Key: CH (Chair), CEO (Chief Executive Officer), TD (Technical Director), NED (Non-Executive Director)

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

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

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

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

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

We understand that our long-term success depends on our relationships with our stakeholders. Please see our Statement of Corporate Responsibility in the Strategic Report element of this Annual Report as presented on pages 16 to 18.

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 (Chair) and Chris Brown.

Remuneration Committee

The Remuneration Committee reviews the performance of the executive directors and makes recommendations to the Board on matters relating to their remuneration and terms of employment. The Remuneration Committee also makes recommendations to the Board on proposals for 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 currently comprises Chris Brown (Chair) and Philip Dimmock. Paul Haywood ceased to be a member of the Remuneration Committee on 11 June 2018.

Nominations Committee

The Nominations Committee meets as and when necessary to consider appointments to the Board, senior management positions and succession planning. The Nominations Committee comprises Philip Dimmock (Chair), Chris Brown and Paul Haywood.

Disclosure Committee

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

Technical Committee

The Technical Committee meets every month and sometimes more frequently to consider surface and sub-surface technical and operational matters. The Technical Committee comprises Chris Brown (Chair), Philip Dimmock, Roger McMechan and Paul Haywood.

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 a HSE Committee. It has therefore taken on the responsibility of formulating the HSE policy and establishing an HSE management plan for the remainder of 2020. 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 currently consists of five directors, three of whom are 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).

Board meetings are held regularly. All directors, executive and non-executive, are required to attend, and to make every effort to attend in person. They are also required to be available at other times as necessary for face-to-face and dial-in and video conferencing meetings with staff and investors.

Executive and non-executive directors' attendance at Board and committee meetings during the 18 months period ended 31 December 2019 is summarised below:

Director name	Board meetings	Audit Committee	Remuneration Committee	Nominations Committee	Technical Committee
Serina Bierer (1)	8/9	2/2	2/2		
Chris Brown (2)	17/20	1/1	11/11	1/1	8/8
Philip Dimmock	24/24	7/7	12/12	3/3	7/8
Paul Haywood (3)	24/24			3/3	7/8
William McAvock (4)	5/5				
Roger McMechan	23/24				8/8
Timothy Parson (5)	3/4		1/1		
Niall Tomlinson (6)	23/24	6/6			

(1) Resigned as a director on 21 January 2019
(2) Appointed as a director and appointed to Remuneration Committee on 3 October 2018, and appointed to Audit Committee on 30 November 2019
(3) Ceased to be a member of the Remuneration Committee on 11 June 2018
(4) Appointed as a director on 16 September 2019
(5) Resigned as a director on 3 October 2018
(6) Resigned as a director on 30 November 2018

The Board follows a schedule of regular business, financial and operational matters, and each committee has compiled a schedule of work to ensure that all areas for which the Board has responsibility are addressed and reviewed during the period. The Chairman is responsible for ensuring directors receive accurate, sufficient and timely information to facilitate their decision-making. The Company's 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, whenever possible, and will review the Annual Report and Statement of Accounts in preparation. The directors also 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 in June 2018, the founding directors brought new directors onto the Board to ensure that the directors have the collective experience and skills to oversee the 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 for the financial year ending 31 December 2020.

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

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

The 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.

Technical Committee

Please see the description of our Technical Committee above.

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

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

Audit Committee Report

The Audit Committee meets as and when required to consider financial controls, review plans and completion reports prepared by its auditor, and to review financial statements and recommend them for approval by the Board. The Audit Committee met seven times during the 18 months period ended 31 December 2019.

Nominations Committee Report

The Nominations Committee meets as and when necessary to consider appointments to the Board and senior management positions, and has met three times during the 18 months period ended 31 December 2019. 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 selected one for recruitment to the Board during the current period, and has plans for further strengthening of the Board.

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

- Philip Dimmock (Chair)
- Chris Brown
- Paul Haywood

The Nominations Committee has responsibilities relating to:

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

Activities during the year included succession planning for the management team as William McAvock was appointed as Chief Financial Officer on the 16 September 2019, and Niall Tomlinson resigned as Executive Director on 30 November 2019.

The Committee feels that the Company has a skilled and talented team of executives and managers in place and has been making plans to further strengthen both the management team and the Board. The Company believes that there is merit from conducting a search process for an additional independent non-executive director, as this will help with succession planning and ensure a resilient and effective Board is in place and fit for purpose over the long-term.

Remuneration Committee Report

See the Remuneration Report in the section below.

Disclosure Committee Report

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

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.

Remuneration Report

This Remuneration Report covers the 18 months period from 1 July 2018 to 31 December 2019. The Remuneration Committee comprises Chris Brown (Chairman) and Philip Dimmock. Paul Haywood at times attends as a guest, and other directors attend on an ad hoc basis. During the period, the Remuneration Committee met 12 times.

Remuneration policy

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

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

The remuneration policy for the non-executive directors is determined by the Board, considering best practice and the Articles of Association.

Components of the remuneration package

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

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

Base salary

The policy is to pay a fair and reasonable base salary, set around the median level of comparable companies. The base salary is reviewed at least annually by the Remuneration Committee, having regard to the performance of the Company and economic conditions.

Following the period end, owing to the combined impacts of lower demand for oil caused by COVID-19 and the Russia–Saudi Arabia oil price war, the Brent oil price collapsed from over $50 per barrel at the start of March 2020 to less than $20 per barrel in April 2020. The Company has responded by agreeing with its executive directors and senior management a scheme in which, with effect from 1 April 2020, 40% of their salary will be paid in nil-cost options to acquire ordinary shares in the Company, reducing monthly cash salary costs. Options will be priced at a volume-weighted average price (“VWAP”) over the monthly salary period and the first options are expected to be based on the VWAP for the month of April 2020 and issued in early May 2020.

Pension

The Company pays for a pension contribution of 10% of base salary for the executive directors. This commenced for William McAvock from 13 May 2019 (the date his employment commenced) and for Paul Haywood and Roger McMechan from 1 July 2019.

Performance-related cash bonus scheme

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

For executives and staff, the KPIs are weighted 60% for the individual and 40% for the company. The CEO has 100% of his salary available for a bonus payment, while the potential maximum bonus payments for the Technical Director and Chief Financial Officer are 75% and 60% respectively. Senior management can receive up to 50% of their base salary as a bonus.

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

The cash bonus payments made in 2019 were for the 12 months period from 1 July 2018 to 30 June 2019, when the Company decided to change its accounting reference date from 30 June to 31 December. The next bonus payments are planned to be paid in early 2021, depending on the economic environmental conditions and the financial resources of the Company at that time, and will be for the 18 months period from 1 July 2019 to 31 December 2020.

Description of Company KPIs for the 12 months period from 1 July 2018 to 30 June 2019

HSE – sought to reward top performance across all sections of the business and was measured by the number of lost time incidents.

Production – set ambitious production targets to be achieved from all company operations.

Budget – encouraged meeting or coming under the agreed financial budget.

Governance – rewarded compliance with and enhancement of set company policies and procedures.

Description of Chief Executive Officer’s KPIs for the 12 months period from 1 July 2018 to 30 June 2019

Business Development and New Ventures – designed to motivate the building Block Energy’s portfolio.

Strategic Financing – growing the business required sourcing additional funding.

Planning/Execution – rewarded oversight of the company meeting its key objectives.

Description of Technical Director KPIs for the 12 months period from 1 July 2018 to 30 June 2019

HSE – there is a specific KPI for the Technical Director who is expected to take the lead in implementing and promoting top performance in HSE.

Production – the Technical Director is responsible for leading the effort to achieve production milestones.

Cost Performance – encouraged achieving approved capital expenditure budgets.

Execution – rewarded performing the work programme with minimal non- productive time.

Planning – rewarded good planning of operations.

Given the need to grow the business at the beginning of the measuring period, several KPIs were considered to be of particular importance, namely the Business Development and Strategic Financing KPIs. Under business development, the Group evaluated a number of opportunities, including the recently-announced acquisition from Schlumberger, as well as increasing our stake in West Rustavi. The Strategic Financing KPI was more than adequately met with the raise of £12 million ($15.2 million) to fund future activities. For progress against other KPIs, please refer to the various executives’ statements.

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

The executives have been set a similar set of KPIs for the period July 2019 to December 2020 at both company and individual levels as in the previous period. Greater emphasis has been placed on HSE, given the increase in operations, with an additional KPI for the completion of a comprehensive HSE plan covering all parts of the business. There are additional KPIs for the Chief Financial Officer in this period.

Individual KPIs for the Chief Financial Officer will include achieving excellent cost management, rewarding value adding initiatives as well as rewarding excellence in treasury and contracts.

Long-Term Incentive Plan ("LTIP")

The LTIP aligns executive director interests with those of shareholders and drives superior long-term performance. Under the LTIP, executive directors and other members of the management team may be provided with awards in the form of share options that will vest over a three year period.

On 21 October 2019, the Company granted a total of 6,325,000 options to acquire ordinary shares in the capital of the Company to new and existing employees. The options have an exercise price of 11p per share, an expiry date 10 years from the date of grant, and vest by one-third on each of the first, second and third anniversaries of the date of grant.

Options were issued to the following recipients:

- 3,125,000 William McAvock, Chief Financial Officer
- 3,200,000 Other employees

There are no performance conditions attached to these options, which vest in equal tranches after 1, 2 and 3 years. They were issued with an exercise price of 11p when the share price was 4.6p.

Directors' remuneration

	Salary $	Bonus $	Fees $	Termination $	Pension $	Shares issued $	18 months to 31 December 2019 Total $	12 months to 30 June 2018 Total $
Non-Executive Directors								
Christopher Brown	–	–	35,319	–	223	6,422	41,964	–
Philip Dimmock	–	–	64,217	–	–	12,201	76,418	20,175
Timothy Parson	–	–	7,706	–	38	–	7,744	35,866
Subtotal	–	–	107,242	–	261	18,623	126,126	56,041
Executive Directors								
Niall Tomlinson	123,425	39,270	–	–	–	–	162,695	70,146
Paul Haywood *	266,500	133,006	–	–	30,841	–	430,347	100,562
Roger McMechan	250,446	75,827	–	–	9,633	–	335,906	–
Serina Bierer	54,379	–	–	20,549	3,600	–	78,528	86,169
William McAvock *	46,794	–	–	–	9,555	–	56,349	–
Subtotal	741,544	248,103	–	20,549	53,629	–	1,063,825	256,877
Total	741,544	248,103	107,242	20,549	53,890	18,623	1,189,951	312,918

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

Directors’ interests in shares

The directors who held office at the end of the period had the following interests in the ordinary shares of the Company:

	31 December 2019	30 June 2018
Non-Executive Directors		
Chris Brown	69,957	–
Philip Dimmock	475,918	312,500
Sub-total	545,875	312,500
Executive Directors		
Paul Haywood	2,143,419	1,654,727
Roger McMechan	3,401,260	3,401,260
William McAvock	–	–
Sub-total	5,544,679	5,055,987
Total	6,090,554	5,368,487

Directors’ interests in options

The directors who held office at the end of the period had the following interests in options to acquire ordinary shares of the Company:

	31 December 2019	30 June 2018
Non-Executive Directors		
Chris Brown	–	–
Philip Dimmock	–	–
Sub-total	–	–
Executive Directors		
Paul Haywood	12,156,428	12,156,428
Roger McMechan	6,370,952	6,370,952
William McAvock	3,125,000	–
Sub-total	21,652,380	18,527,380
Total	21,652,380	18,527,380

Director	Grant date	Expiry date	Life (years)	Number	Exercise price (pence)
Roger McMechan	30 June 2017	31 December 2022	5.5	1,200,000	2.5
Paul Haywood	6 April 2018	11 June 2028	10.2	4,400,000	2.5
Paul Haywood	9 June 2018	11 June 2028	10.0	7,756,428	4.0
Roger McMechan	9 June 2018	11 June 2028	10.0	5,170,952	4.0
William McAvock	21 October 2019	21 October 2029	10.0	3,125,000	11.0
				21,652,380	

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 18 month period ended 31 December 2019 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 (IFRSs) as adopted by the European Union 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 31 December 2019 and of the Group's loss for the period 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.

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements which notes the negative impact of Covid-19 on the global economy, oil prices, and the potential consequential impact on the Group's ability to secure additional funding. It further notes that the global pandemic may also bring practical challenges to the Company and its suppliers that challenge planned timetables for the construction of the gas pipeline and the consequent sale of gas. As stated in note 1, these conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Given the conditions and uncertainties disclosed in note 1, we considered going concern to be a Key Audit Matter.

Our audit procedures in response to this key audit matter included:

- Critically assessing Management's financial forecasts through comparing actual outcomes in the current year against prior forecasts. Underlying key assumptions, including revenue, production volumes, operating and capital expenditure were assessed by considering factors such as commitments under licences, historical revenue, historical and forecasted production and operating expenditure and the Group's ability to produce gas and sell oil and gas during a period of at least twelve months from the date of approval of the financial statements.

- Assessing the reasonableness of key assumptions underpinning the forecasts by referencing to Brent crude oil prices, current production sharing agreements, expenditure and commitments and considering the implications of the global Covid-19 Pandemic on the Group.
- Making enquiries of Management and reviewing Board minutes and key operational contracts to assess completeness of possible commitments considered in the cash flow forecasts.
- Evaluating the adequacy of disclosure made in the consolidated financial statements in respect of going concern.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) which we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter referred to in the Material uncertainty related to going concern section above, the following key audit matter was identified:

Key Audit Matter	How our audit addressed the key audit matter
Carrying value of development and production assets recorded within Property, Plant and Equipment The Group’s development and production assets (“D&P”) which are categorised within property, plant and equipment represent the most significant asset on the consolidated statement of financial position (see note 15) As explained in Note 1 to the consolidated financial statements, the indicators of impairment assessment in relation to the D&P assets under the relevant accounting standard and the resulting assessment of the assets’ recoverable amount require the exercise of significant judgement by Management. Management and the Directors are required to assess whether there are any potential impairment triggers which would indicate that the carrying value of the assets may not be recoverable. Management identified the current market capitalisation of the Company and the oil price trend during the period as impairment triggers, and as a result, performed a detailed assessment of the recoverable amount of the D&P assets in accordance with the relevant accounting standard (refer to Note 15 to the consolidated financial statements). Given the significance of the assets to the Group’s consolidated statement of financial position and the significant management judgements and estimates involved in this area, we consider this a key audit matter.	We evaluated Management’s and the Board’s impairment review for each cash generating unit identified. We critically challenged the considerations made regarding indicators of impairment identified and the resulting assessment of the recoverable amount of the assets in accordance with the relevant accounting standard by performing the following procedures: • We assessed Management’s impairment indicator review to establish whether it was performed in accordance with the requirements of the relevant accounting standard • We obtained and read third party documents relating to the licence status and commitments to check legal title and validity of each of the licences • We performed an assessment of the appropriateness of the cash generating units identified by Management by reference to the relevant accounting standard • We assessed the function of the operating facilities through enquiries of the technical director in order to confirm our understanding of the operations and in order to assess whether there are any additional indicators of impairment. We further reviewed board minutes and other publicly available information. • We agreed the key assumptions used by Management in determining the recoverable amount of the D&P asset such as oil price and discount rates and compared to industry averages and benchmarked these against publically available information and other third party information. We considered assumptions such as production levels and sales in the light of historic results and underlying agreements such as the production sharing agreements and performed sensitivity analysis to determine the appropriateness thereof.

Key Audit Matter	How our audit addressed the key audit matter
	• We reviewed third party reports obtained from Management's expert relating to the reserves and resources impacting the impairment model. We reviewed Management estimates based on the impairment model and as part of this work we sensitised inputs used in the models: and • We performed an assessment of the competence, independence and objectivity of Management's expert. We evaluated the adequacy and appropriateness of the disclosures provided within the consolidated financial statements in Notes 1 and 15.

Key observations

Based on the work performed we identified no additional indicators of impairment and considered the key assumptions used by Management in performing their impairment assessment.to be reasonable and appropriate.

Our application of materiality

Group materiality	**$200,000 (2018: $94,000)**
Basis for determining materiality	1% of total assets (2018: 1.3% of total assets)
Group performance materiality	**$130,000 (2018: $60,000)**
Basis for performance materiality	65% of Group materiality (2018: 65% of Group materiality)
Parent Company materiality	**$146,000 (2018: $52,000)**
Basis for determining materiality	1% of Total Assets adjusted for elimination of intercompany assets (2018: 55% of Group materiality)
Parent Company performance materiality	**$95,000 (2018: $34,000)**
Basis for performance materiality	65% of Parent Company materiality (2018: 65% of Parent 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 as the Group continues to develop its portfolio of oil and gas assets through to production.

In performing the audit, we applied a lower level of materiality, performance materiality, in order to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds financial statement materiality.

Each significant component of the Group was audited to a lower level of materiality ranging from $50,000 to $146,000 (2018: $16,000 to $52,000).

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 $4,000 (2018: $2,000). We also agreed to report differences below this threshold 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, Block Norioskhevi Limited, Georgian New Ventures Inc, Satskhenisi Limited and Block Operating Company LLC which were all subject to a full scope audit. Together with the Group consolidation, which was also subject to a full scope audit, these represent the significant components of the Group.

Some detailed substantive testing on the significant components, which operate in Georgia, were performed by BDO Georgia who were considered to be an extension of the Group audit team. The Group audit team conducted all work on the key audit risks identified and completed the audit of the Parent Company and the Group.

The remaining components of the Group were considered non-significant and were principally subject to analytical review procedures. For these non-significant components, detailed audit testing was also performed on financial statement areas where specific audit risks had been identified. These procedures were performed by the Group audit team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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
30 April 2020

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

Consolidated Statement of Comprehensive Income

for the 18 months period ended 31 December 2019

Continuing operations	Note		18 months period ended 31 December 2019 $'000	Year ended 30 June 2018 Restated[1] $'000
Revenue	5		314	179
Other cost of sales		(633)		(277)
Depreciation and depletion of oil and gas assets	6	(574)		(50)
Total cost of sales			(1,207)	(327)
Gross loss			(893)	(148)
Costs in relation to AIM listing		–		(569)
Other administrative costs		(3,783)		(1,146)
Share based payments charge		(862)		(101)
Total Administrative expenses	7,8		(4,645)	(1,816)
Foreign exchange movement			(657)	5
Operating loss			(6,195)	(1,959)
Finance income	9		69	1
Finance expense			(4)	(48)
Loss for the period/year before taxation			(6,130)	(2,006)
Taxation	10		–	–
Loss for the period/year from continuing operations (attributable to the equity holders of the parent)			(6,130)	(2,006)
Discontinued operations				
Discontinued operations – Antubia Ltd	14		–	171
Loss for the period/year			(6,130)	(1,835)
Items that may be reclassified subsequently to profit and loss:				
Exchange differences on translation of foreign operations			483	50
Total comprehensive loss for the period/year attributable to the equity holders of the parent			(5,647)	(1,785)
Loss per share from continuing operations			(1.96)c	(1.95)c
Earnings per share from discontinuing operations			–	0.17c
Loss per share basic and diluted	11		(1.96)c	(1.78)c

1 Please refer to note 4 in the Group consolidated notes for restated balances.

The notes on pages 48 to 75 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2019

	Note	31 December 2019 $'000	30 June 2018 Restated[1] $'000	30 June 2017 Restated[1] $'000
Non current assets				
Intangible assets	15	–	1,894	850
Property, plant and equipment	16	12,713	1,803	–
		12,713	3,697	850
Current assets				
Inventory	18	2,519	334	–
Trade and other receivables	20	303	168	315
Cash and cash equivalents	21	6,494	5,278	279
Assets held for sale	17	–	–	428
Total current assets		9,316	5,780	1,022
Total assets		22,029	9,477	1,872
Equity and liabilities				
Capital and reserves attributable to equity holders of the Company:				
Share capital	24	2,623	2,192	1,581
Share premium	25	27,985	12,221	3,536
Other reserves	26,27,28	1,114	460	189
Foreign exchange reserve		433	(50)	–
Accumulated deficit		(11,545)	(5,623)	(3,838)
Total Equity		20,610	9,200	1,468
Liabilities				
Trade and other payables	23	1,143	218	83
Borrowings	29	–	59	321
Provisions	19	276	–	–
Total current liabilities		1,419	277	404
Total equity and liabilities		22,029	9,477	1,872

1 Please refer to note 4 in the Group consolidated notes for restated balances.

The financial statements were approved by the Board of Directors and authorised for issue on 30 April 2020 and were signed on its behalf by:

William McAvock
Director

Paul Haywood
Director

The notes on pages 48 to 75 form part of these financial statements.

Consolidated Statement of Changes in Equity

at 31 December 2019

	Share Capital $'000	Share premium $'000	Accumulated deficit $'000	Other Reserves $'000	Foreign Exchange Reserve $'000	Total Equity $'000
Balance at 30 June 2017	1,581	3,536	(3,649)	–	–	1,468
Prior year adjustment [1]	–	–	(189)	189	–	–
Balance at 30 June 2017 (restated)	1,581	3,536	(3,838)	189	–	1,468
Loss for the year (restated to $US)	–	–	(1,681)	–	–	(1,681)
Prior year restatement – share based payments [1]	–	–	(154)	–	–	(154)
Loss for the year (restated)	–	–	(1,835)	–	–	(1,835)
Exchange differences on translation of foreign operations	–	–	50	–	(50)	–
Total comprehensive loss for the year	–	–	(1,785)	–	(50)	(1,835)
Issue of shares	611	9,182	–	–	–	9,793
Cost of issue	–	(507)	–	–	–	(507)
Share based payments	–	–	–	127	–	127
Prior year restatement – share based payments	–	–	–	154	–	154
Prior year restatement – Taoudeni [1]	–	10	–	(10)	–	–
Share based payments – restated	–	10	–	271	–	281
Total transactions with owners	611	8,685	–	271	–	9,567
Balance at 30 June 2018	2,192	12,221	(5,623)	460	(50)	9,200
Loss for the period	–	–	(6,130)	–	–	(6,130)
Exchange differences on translation of foreign operations	–	–	–	–	483	483
Total comprehensive loss for the period	–	–	(6,130)	–	483	(5,647)
Issue of shares	431	16,655	–	–	–	17,086
Cost of issue	–	(891)	–	–	–	(891)
Share based payments	–	–	208	654	–	862
Total transactions with owners	431	15,764	208	654	–	17,057
Balance at 31 December 2019	2,623	27,985	(11,545)	1,114	433	20,610

1 Please refer to note 4 in the Group consolidated notes for restated balances.

Please refer to note 22 in the Group consolidated notes for non cash transactions

The notes on pages 48 to 75 form part of these financial statements

Consolidated Statement of Cashflows

at 31 December 2019

	Note	18 months period ended 31 December 2019 $'000	Year ended 30 June 2018 $'000
Operating activities			
Loss for the period/year before tax		(6,130)	(2,006)
Profit from discontinued operations		–	171
Adjustments for:			
Depreciation and depletion	6	574	48
Finance income		(69)	(1)
Finance expense		4	48
Share based payments expense	28	862	246
Gain on sale of subsidiary		–	(171)
Foreign exchange movement		657	(5)
AIM Admission costs		–	518
Net cash flow from operating activities before changes in working capital		(4,102)	(1,152)
Changes in working capital:			
(Increase)/Decrease in trade and other receivables	20	(134)	149
Increase in trade and other payables	23	703	135
(Increase)/Decrease in inventory	18	(2,185)	334
Net cash flow used in operating activities		(5,718)	(534)
Investing activities			
Income received		37	1
Expenditure in respect of intangible assets	15	(264)	(796)
Expenditure in respect of PPE	16	(8,050)	(709)
Consideration received on sale of subsidiary	14	–	611
Cash used in investing activities		(8,277)	(893)
Financing activities			
Proceeds arising as a result of the issue of ordinary shares		16,087	7,061
Costs related to issue of ordinary share capital		(891)	(1,024)
Interest paid		(4)	(48)
Convertible loan notes issued	29	–	484
Net cash from financing activities		15,192	6,473
Net increase in cash and cash equivalents in the period/year		1,197	5,046
Cash and cash equivalents at start of period/year		5,278	280
Effects of foreign exchange rate changes on cash and cash equivalents		19	(48)
Cash and cash equivalents at end of period/year	21	6,494	5,278

The notes on pages 48 to 75 form part of these financial statements

Notes to the Consolidated Financial Statements

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 18 months period ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 27 April 2020. 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 the Directors on pages 4 and 21, 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. The functional currency of the Company is the pound sterling. At 30 June 2019, to enable easier comparison with most of its oil & gas sector peer group, the presentational currency for the consolidated accounts was changed from the pound sterling to the United States dollar (US dollar) with effect from 1 July 2017 This change of presentational currency represents a change in accounting policy. The current and comparative period balances have been translated using the average exchange rate for the year (2019: $1.29702, 2018: $1.34497) for the Statement of Comprehensive Income and the balance sheet date exchange rate (31 December 2019: $1.26992, 30 June 2018: $1.32050, 30 June 2017: $1.29946) for the Statement of Financial Position, except for share capital, which was translated using historical exchange rates. All amounts presented are in thousands of US dollars unless otherwise stated.

During the period, the Group changed its accounting reference date from 30 June to 31 December and consequently the current period covers the 18 months period ended 31 December 2019. The comparative period covers the year ended 30 June 2018.

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 and amended standards adopted by the Group

IFRS 9: Financial Instruments

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.

The Group has assessed the particular impact of IFRS 9 on the Group as immaterial, but the adoption of IFRS 9 has impacted the parent company. This is a result of the existing incurred loss approach under IAS 39 being replaced by the forward-looking expected credit losses ("ECL") model approach of IFRS 9. The ECL model is required to be applied to the intercompany loans receivable from subsidiary companies, which are held at amortised cost. Please refer to note 1 of the parent company financial statements on page 79 for the detail on the impact and the financial assets accounting policy included in this note on pages 54 to 55.

The Company has opted for the transition method, requiring a retrospective application for the first time adoption of IFRS 9. No differences were identified to be processed at the date of initial application (i.e. 1 July 2018).

IRFS 15

IFRS 15 is effective for accounting periods starting on or after 1 January 2018 and provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment.

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.

No new standards and amendments to standards and interpretations effective for annual periods commencing on or after 1 July 2018 have had a material impact on the Group.

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the group has decided not to adopt early. The following amendments are effective for the period beginning 1 January 2020:

- IAS 1 *Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* (Amendment – Definition of Material)
- IFRS 3 *Business Combinations* (Amendment – Definition of Business)
- IFRS 16 *Leases*
- Revised Conceptual Framework for Financial Reporting

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

IFRS 16: Leases

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

The Group is currently assessing the impact of the remaining new accounting standards and amendments. The Group does not believe that the amendments to IAS 1 will have a significant impact on the classification of its liabilities.

The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the group.

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 aquiree'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 measure goodwill at the acquisition dates as:

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

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

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

Asset Acquisition

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

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

Going concern

The directors have prepared cash flow forecasts for a period of 14 months from the date of signing of these financial statements. The Group's forecasts include a number of enacted cost saving measures and the forecasts are reviewed regularly in order to assess whether any further actions are required. The Group is in the final stages of negotiating to engage Bago LLC to construct a gas pipeline and to revise the sales agreement for West Rustavi gas. The forecasts assume the gas pipeline will be constructed and the gas will be sold, and indicate the Group has sufficient funds to complete the construction of the gas project and to meet its liabilities as they fall due until April 2021. The financial benefit of any additional capital projects would be assessed against capital requirements and balanced with ensuring that the Group and the Company can continue to meet their liabilities and commitments through to April 2021. The Company's forecasts are considered together with the Group's forecasts.

The directors note that COVID-19 has had a significant negative impact on the global economy and oil prices have fallen significantly, which may mean it would be more difficult to secure additional funding than it has historically been. The global pandemic may also bring practical challenges to the timetables for the construction of the gas pipeline and the consequent sale of gas. The directors are confident that current capital projects are funded and have a reasonable expectation that they could secure additional funding, if needed, to fund additional capital projects. However, these conditions necessarily indicate that a material uncertainty exists which may cast significant doubt over the Group and Company's ability to continue as a going concern and therefore their ability to realise their assets and discharge their liabilities in the normal course of business. Whilst acknowledging this material uncertainty, the directors remain confident of making further cost savings when required and, therefore, the directors consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

Intangible Assets

Exploration and evaluation costs

The Group applies the full cost method of accounting for Exploration and Evaluation (E&E) costs, having regard to the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'. Under the full cost method of accounting, costs of exploring and evaluating properties are accumulated and capitalised by reference to appropriate cash generating units ("CGUs"). Such CGU's are based on geographic areas such as a licence area, type or a basin and are not larger than an operating segment – as defined by IFRS 8 'Operating segments.

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

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

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

Impairment of Exploration and Evaluation assets

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

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

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

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

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

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

Capitalisation

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

Depreciation

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

Proven oil and gas properties

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

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

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

Impairment of development and production assets

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

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

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

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

Property, plant and equipment and depreciation

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

- 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.

Leases

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

Inventories

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

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

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

Decommissioning provision

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

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

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

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

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 therefore there is no 'Held for sale' balance as at 30 June 2018 or 31 December 2019.

Taxation and deferred tax

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

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

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

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

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

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

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the rates of exchange prevailing at the reporting date. Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Exchange differences are taken to the Statement of Comprehensive Income.

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

Foreign operations

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

Determination of functional currency and presentational currency

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

The presentational currency of the Group for the 18 months period ended 31 December 2019 is US dollars. The presentational currency is an accounting policy choice.

Revenue

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

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

Entitlement has two components:

1. Cost oil: which is the mechanism by which the Company recovers its costs incurred on an asset; and
2. Profit oil: which is the mechanism through which the profits are shared between the Company, its partner and the Georgian Oil & Gas Corporation. ("GOGC").

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

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

Fair value

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

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

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

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

Financial assets

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

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

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

Financial liabilities

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

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

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

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

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Convertible loan notes ("CLN")

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

The CLNs were issued in pounds sterling (the functional currency of the Company). Under the terms of these CLNs, the loan instruments were 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 from other reserves to the accumulated deficit. On exercise, equity is also increased by the amount of the proceeds received.

The fair value is measured at grant date charged in the accounting period during which the option and warrants becomes unconditional.

The fair value of options and warrants are calculated using the Black-Scholes model, taking into account the terms and conditions upon which the options and warrants were granted. Vesting conditions are non-market and there are no market vesting conditions. These vesting conditions are included in the assumptions about the number of options and warrants that are expected to vest. At the end of each reporting period, the Company revises its estimate of the number of options and warrants that are expected to vest. The exercise price is fixed at the date of grant and no compensation is due at the date of grant. Where equity instruments are granted to persons other than employees, the statement of comprehensive income is charged with the fair value of the goods and services received.

2. Critical accounting judgments, estimates and assumptions

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

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

Costs capitalised in respect of the Group's development and production assets are required to be assessed for impairment under the provisions of IAS 36. Such an estimate requires the Group to exercise judgement in respect of the indicators of impairment and also in respect of inputs used in the models which are used to support the carrying value of the assets. Such inputs include estimates of oil and gas reserves, production profiles, oil price, oil quality discount, capital expenditure, inflation rates, and discount rates. The directors concluded there were impairment indicators in the current period. Therefore, the carrying value of the assets of the Group was tested for impairment and sensitivities around the main inputs above were considered, but the impairment testing supported the current carrying value of the assets of the Group and no impairment to the carrying value of the assets was considered necessary.

An assessment of impairment took place at the time that the West Rustavi intangible assets were transferred to Property, Plant and Equipment. There were no significant changes from the net present value model that would indicate impairment at that point.

Asset Decommissioning Provisions – estimates and assumptions

The Group's activities are subject to various laws and regulations governing the protection of the environment. The Group recognises management's best estimate of the asset decommissioning costs in the period in which they are incurred. Actual costs incurred in future periods could differ materially from the estimates.

Additionally, future changes to environmental laws and regulations, life of development and production assets, estimates and discount rates could affect the carrying amount of this provision. The Board assessed the extent of decommissioning required as at 31 December 2019 and concluded that a provision of $276,000 (2018: nil) should be recognised in respect of future decommissioning obligations at West Rustavi, Satskhenisi and Norio (refer note 19).

Share Options – estimates and assumptions

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

The key estimates include volatility rates and the expected life of the options, together with the likelihood of non-market performance conditions being achieved. Refer note 28.

Accounting for business combinations and fair value – estimates and assumptions

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

3. Segmental disclosures

IFRS 8 requires segmental information for the Group on the basis of information reported to the chief operating decision maker for decision making purposes. The Company considers this role as being performed by the Board of Directors. The Group's operations are focused on oil and gas development and production activities (Oil extraction segment) in Georgia and has a corporate head office in the UK (corporate 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:

18 month period ended 31 December 2019	Oil Extraction $'000	Corporate and other $'000	Group Total $'000
Revenue	314	–	314
Cost of sales	(633)	–	(633)
Administrative costs	(1,049)	(3,596)	(4,645)
Net Finance costs, income and forex	–	(592)	(592)
Loss from operating activities	(1,368)	(4,188)	(5,556)
Total non-current assets	12,702	11	12,713
Depreciation and depletion	(571)	(3)	(574)

Year ended 30 June 2018	Oil Extraction $'000 (restated)[1]	Corporate and other $'000 (restated)[1]	Group Total $'000 (restated)[1]
Revenue	179	–	179
Cost of sales	(315)	–	(315)
Discontinued operations	–	171	171
Administrative costs	(276)	(1,376)	(1,652)
Net Finance costs and income	–	(47)	(47)
Loss from operating activities	(412)	(1,252)	(1,664)
Total non-current assets	3,697	–	3,697
Depreciation and depletion	(50)	–	(50)

Segmental Assets	31 December 2019 $'000	30 June 2018 $'000
Oil exploration – Georgia	15,971	4,064
Corporate and other	6,038	5,413
	22,009	9,477

Segmental Liabilities	31 December 2019 $'000	30 June 2018 $'000
Oil exploration – Georgia	2,265	71
Corporate and other	262	206
	2,527	277

[1] Refer note 4.

4. Restatement of prior year financial statements

During the year ended 30 June 2018, the share based payments charge included £35,514 ($47,000) in respect of 4,400,000 options with a value of £152,501 ($201,000) granted to Paul Haywood on 6 April 2018. All of these options vested on listing on AIM on 11 June 2018 and, therefore, the whole value of £152,501 ($201,000) should have been charged in the year ended 30 June 2018. This resulted in an understatement of the expense by £116,987 ($154,000) in the year ended 30 June 2018. Consequently, the results for the year ended 30 June 2018 have been restated to include the additional share based payments charge of $154,000.

During the year ended 30 June 2016, the Company acquired 100% of the share capital of Taoudeni Resources Limited. The consideration payable comprised £29,307 ($38,000) cash, 599,177,916 ordinary shares (with a nominal value and fair value of 0.05 pence per share) payable on acquisition ("Initial Consideration Shares") and 617,702,713 ordinary shares payable at a later stage ("Deferred Consideration Shares"). At the time of the acquisition, the Company's shares were trading at 0.05 pence per share, resulting in a fair value of £299,589 ($388,000) for the Initial Consideration Shares and £308,851 ($400,000) for the Deferred Consideration Shares.

However, in the financial statements for the year ended 30 June 2016, the £308,851 ($400,000) value of the Deferred Consideration Shares was not included in the cost of acquisition and the consideration payable. As at 30 June 2016, the effect of the error was to understate the value of E&E assets (included in intangible assets) and other reserves (share based payments) by £308,851 ($400,000).

In the financial statements for the year ended 30 June 2017, the principal asset that had been acquired with Taoudeni Resources Limited (i.e. 100% of the shares in Antubia Resources Limited) was held for sale and it was fair valued at its carrying value of £329,000 ($426,000) and there was gain or loss recorded in the income statement. However, if the £308,851 ($400,000) value of the Deferred Consideration Shares had been included in the value of the asset held for sale, it would have been written down to its fair value of £329,000 ($426,000) and there would have been a £308,851 ($400,000) reduction in the value of the E&E assets and a loss of £308,851 ($400,000) recognised in the income statement for that year.

During the year ended 30 June 2018, it was identified that some of the sellers of Taoudeni Resources Limited waived their rights to receive Deferred Consideration Shares during the year ended 30 June 2017, but this transaction was not recognised in the financial statements for the year ended 30 June 2017. If the waiver of rights to receive deferred consideration shares had been recognised in the financial statements, the effect would have been to decrease other reserves by £163,425 ($211,000) and increase the retained deficit by the same amount.

During the year ended 30 June 2018, some of the Deferred Consideration Shares were issued. 72,120 ordinary shares were issued instead of 18,029,997 Deferred Consideration Shares to adjust for a 1 for 50 share consolidation and a 1 for 5 share consolidation that had taken place. Consequently, to adjust for the share split and consolidation, the share price at the time of acquisition was also adjusted from 0.05 pence per share to 12.5 pence per share. However, in the financial statements for the year ended 30 June 2018, the 72,120 ordinary shares were issued and valued using a share price of 4 pence per share (being the share price at the time of issue) instead of the share price at the time of the acquisition of Taoudeni Resources Limited as adjusted for the share split and share consolidation of 12.5 pence per share. As at 30 June 2016, the effect of the error was to understate share premium by £7,663 ($10,000) and overstate other reserves (share based payments) by £7,663 ($10,000).

(extract) Balance sheet	30-Jun-18 Restated in USD $'000	Increase/ (Decrease) $'000	1 July 2018 (Restated) Restated and unaudited $'000	30-Jun-17 £'000	30-Jun-17 Restated in USD $'000	Increase/ (Decrease) $'000	1 July 2017 (Restated) Restated and unaudited $'000
Intangible assets				654	850	–	850
Share premium	12,211	10	12,221				
Other reserves	316	144	460	–	–	189	189
Accumulated deficit	(5,469)	(154)	(5,623)	(2,808)	(3,649)	(189)	(3,838)

Statement of profit and loss (extract)	30 June 2018 Restated in USD $'000	Increase/ (Decrease) $'000	1 July 2018 (Restated) Restated and unaudited $'000	30 June 2017 £'000	30-Jun-17 Restated in USD $'000	Increase/ (Decrease) $'000	1 July 2017 (Restated) Restated and unaudited $'000
Total administrative expenses	(1,657)	(154)	(1,811)				
Results from operating activities	(1,805)	(154)	(1,959)				
Finance income	1		1	–	–	211	211
Finance expense	(48)		(48)	(6)	(8)	(400)	(408)
Loss for the year before taxation	(1,852)	(154)	(2,006)	(290)	(377)	(189)	(566)

5. Revenue

	18 months period ended 31 December 2019 $'000	Year ended 30 June 2018 $'000
Crude oil revenue	314	179

The first crude oil sale was made in December 2017 from the Norioskhevi and Satskhenisi oil fields, and in November 2019 from the West Rustavi oil field.

6. Depreciation and Depletion on Oil and Gas assets

	18 months period ended 31 December 2019 $'000	Year ended 30 June 2018 $'000
Depreciation of PPE	52	30
Depletion of oil and gas assets	522	20
	574	50

7. Administration costs

	18 months period ended 31 December 2019 $'000	Year ended 30 June 2018 $'000 Restated
Administration costs are as follows:		
Employee benefit expense (note 8)	2,132	409
Share option charge	660	275
Warrants charge	202	6
AIM listing fees	–	518
Fees to Auditor in respect of the Group and Company audit	76	31
Fees to Auditor for other non-audit services	–	17
Regulatory fees	81	28
Operating lease expense	54	30

8. Employees

	18 months period ended 31 December 2019 $'000	Year ended 30 June 2018 $'000 Restated
Employment costs (inc. directors' remuneration):		
Wages and salaries	2,341	336
Pensions	251	–
Shares issued in lieu of services	–	56
Share based payments	862	244
Social security costs	108	16
	3,562	652

The average monthly number of employees during 2019 was 37 (2018: 2) split as follows:

	18 months period ended 31 December 2019 $'000	Year ended 30 June 2018 $'000 Restated
Management	7	–
Technical	17	–
Administration	13	2
	37	2

The wages and salaries of the Company are equivalent to those of the Group. The share based payments comprised the fair value of options granted to directors and employees in respect of services provided.

	18 months period ended 31 December 2019 $'000	Year ended 30 June 2018 $'000 (restated)*
Amounts attributable to the highest paid director:		
Director's salary and bonus	399	101
Pension	31	–
Share based payments	–	194
	430	295

Key management and personnel are considered to be the directors.

9. Finance Income

	31 December 2019 $'000	30 June 2018 $'000
Settlement of loan	32	–
Other finance income	37	1
	69	1

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

10. Taxation

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

UK taxation	18 months period ended 31 December 2019 $'000	Year ended 30 June 2018 $'000
UK Loss on ordinary activities	(6,034)	(2,006)
Loss before taxation at the average UK standard rate of 19% (2018:19%)	(1,146)	(381)
Effect of:		
Non-taxable income	(60)	–
Tax losses for which no deferred income tax asset was recognised	1,206	381
Current tax	–	–

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

For any other jurisdictions which the Group has not recognised deferred income tax assets for tax losses carried forward for entities in which it is not considered probable that there will be sufficient future taxable profits available for offset. Unrecognised deferred income tax assets related to unused tax losses. The Company has UK corporation tax losses available to carry forward against future profits of approximately $8,296,000 (2018: $2,262,000).

	18 months period ended 31 December 2019 $'000	Year ended 30 June 2018 $'000
Unrecognised gross deferred tax position		
Tax losses bought forward	2,262	256
Timing differences bought forward	–	–
Total unrecognised gross deferred tax position at start of period	2,262	256
Tax losses not recognised in the period	6,034	2,006
Movement in timing differences	–	–
Tax losses carried forward	8,296	2,262
Timing differences carried forward	–	–
Total unrecognised gross deferred tax position at start of period	8,296	2,262

Unrecognised deferred tax asset	18 months period ended 31 December 2019 $'000	Year ended 30 June 2018 $'000
Tax losses	1,206	381
Timing differences	–	–
Total unrecognised deferred asset	1,206	381

11. Loss per share

	18 months period ended 31 December 2019	Year ended 30 June 2018 (restated) [1]
Loss per share from continuing operations–basic	(1.96)c	(1.95)c
Earnings per share from discontinuing operations–basic	–	0.17c
Loss per share–basic	(1.96)c	(1.78)c

1 Refer note 4.

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.

	18 months period ended 31 December 2019 $'000	Year ended 30 June 2018 (restated) [1] $'000
Loss for the period/year from continuing operations (used in calculation of basic LPS from continuing operations)	(6,130)	(2,006)
Profit for the ear from discontinuing operations (used in calculation of basic LPS from discontinuing operations)	–	171
Loss for the period/year (used in calculation of total basic LPS)	(6,130)	(1,835)
Weighted average number of Ordinary shares of 0.25p in issue	312,998,744	102,915,614

1 Refer note 4.

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

12. Acquisition of Subsidiaries and associated PSC interests

Acquisition of interest in the West Rustavi PSC

The initial 5% interest in the West Rustavi PSC was acquired from Georgia Oil and Gas Limited ("GOG") for $100,000 in cash in the year ended 30 June 2017. On admission to AIM in June 2018, Block Energy acquired a further 20% working interest in the West Rustavi PSC from GOG for the consideration of $1 million in shares and $500,000 in cash. At 30 June 2018, the total Group interest in the West Rustavi PSC was 25%.

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

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

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

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

On 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 Satkhenisi PSC.

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

Satskhenisi's principal activity is oil and gas extraction, and it was acquired for the purpose of facilitating petroleum operations under the Satskhenisi PSC. Petroleum operations include all activities relating to exploration, development, production and transportation of oil and gas to the sales 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	472
PPE	90
Oil inventory	16
Inventory and spare parts	224
Trade and other payables	(14)
Total net assets acquired	788
Fair value of consideration paid	
Total consideration – Cash and Ordinary shares of the Company 70,000,000 of 0.0085p each	788

During the period since acquisition, Satskhenisi Ltd contributed $149,000 to the Group loss and revenue of $62,000.

The intangible asset fair value was 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

On 20 April 2017, Block Energy Plc acquired Block Norioskhevi Ltd (Norio), a BVI incorporated company. During the year ended 30 June 2018, the interest increased from 38% to 100%, through $610,0000 cash consideration payment, and $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 $1,300,000 and an issue of $250,000 worth of Block Energy Plc ordinary shares.

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

13. 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.

14. 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	600
Carrying value of net assets	(434)
Foreign exchange	2
	168

Cashflow from divestment of Antubia Ltd	$'000
Consideration received from divestment	600
Cash and cash equivalents of Antubia foregone	–
Net cash inflow from divestment	600

15. Intangible assets

Cost	Licences $'000	Exploration and Evaluation cost $'000	Total $'000
At 1 July 2018 (restated, note 4)	1,894	–	1,894
Additions during the period	250	14	264
Transfer to property, plant and equipment	(2,144)	(14)	(2,158)
At 31 December 2019	–	–	–

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

Cost	Licences $'000	Exploration and Evaluation cost $'000	Total $'000
At 1 July 2017	813	49	862
Additions during the period	1,796	–	1,796
Transfer to property, plant and equipment	(706)	(50)	(756)
Foreign exchange movements	(9)	1	(8)
At 30 June 2018 (restated, note 4)	1,894	–	1,894

The additions in the prior period are a result of the West Rustavi PSC increase from 5% to 25%. The transfer to PPE relates to the Norioskhevi ($740,000) and Satskhenisi PSC ($16,000).

All the intangible assets are located in Georgia.

16. Property, Plant and Equipment

Cost	Licence area $'000	Development/ Production Assets $'000	Computer/ Office Equipment/ Motor Vehicles $'000	Total $'000
At 1 July 2017	–	–	–	–
Transfer from intangibles	756	–	–	756
Additions	885	208	–	1,093
At 30 June 2018	1,641	208	–	1,849
Transfer from intangibles	2,158	–	–	2,158
Additions	1,186	8,011	129	9,326
At 31 December 2019	4,985	8,219	129	13,333

Accumulated Depreciation	Licence area $'000	Development/ Production Assets $'000	Computer/ Office Equipment/ Motor Vehicles $'000	Total $'000
At 1 July 2017	–	–	–	–
Charge for the period	19	28	–	47
Forex	(1)	–	–	(1)
At 30 June 2018	18	28	–	46
Charge for the period	–	567	7	574
At 31 December 2019	18	595	7	620
Carrying amount				
At 31 December 2019	4,967	7,624	122	12,713
At 30 June 2018	1,623	180	–	1,803

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

Carrying amount	Norio $'000	Satskhenisi $'000	West Rustavi $'000	Corporate $'000	Total $'000
At 31 December 2019	2,465	435	9,671	142	12,713
At 30 June 2018	1,502	301	–	–	1,803

At the end of the current period, the directors concluded there were impairment indicators in the current period that warranted impairment testing to be prepared with respect to the carrying value of the assets of the Group. Results of the impairment testing supported the currently carrying value of the assets of the Group and as such no impairment to the carrying value of the assets was required.

An assessment of impairment took place at the time that the West Rustavi intangible assets were transferred to Property, Plant and Equipment. There were no significant changes from the net present value model that would indicate impairment at that point.

17. Asset Held for Sale

Details of asset held for sale are as follows:

Cost	2019 $'000
At 1 July 2018 and 31 December 2019	–

Cost	2018 $'000
At 1 July 2017	433
Additions	–
Forex	9
Disposal of assets	(442)
At 30 June 2018	–

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 asset's fair value was 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 $600,000 giving rise to a gain on disposal of $168,000.

18. Inventory

	31 December 2019 $'000	30 June 2018 $'000
Spare parts and consumables	1,763	334
Crude oil	756	–
	2,519	334

19. Provisions

	31 December 2019 $'000	30 June 2018 $'000
Decommissioning provision	276	–

	31 December 2019 $'000	30 June 2018 $'000
At 1 July	–	–
Additional provision in the period	276	–
At 31 December	276	–

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.

20. Trade and other receivables

	31 December 2019 $'000	30 June 2018 $'000
Other receivables	166	139
Prepayments	137	29
	303	168

During the period, the Company registered as an employer in Canada and Canadian income tax and employee's social security were payable. In December 2019, the Company paid these liabilities of $77,000 for Roger McMechan to the tax collector during December 2019 and this effectively formed a loan to the director and included in other receivables – refer Note 34. The Company is currently negotiating a repayment plan with Roger, with the loan expected to be repaid in full by 31 July 2020.

The 2018 balance relates mainly to VAT recoverable, and consideration to be received from the sale of Taoudeni SARL (please refer to note 13).

21. Cash and cash equivalents

	31 December 2019 $'000	30 June 2018 $'000
Cash and cash equivalents	6,494	5,278

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

22. Non – cash transactions

On 1 August 2017, the company issued 70,000,000 ordinary shares at a price of 0.85p per share with a value of $787,522 (£595,000), for the acquisition of Satskhenisi Ltd and a 90% interest in the Satskhenisi PSC.

On 11 June 2018, the following shares were issued in settlement of liabilities:

Shares issued in lieu of payment for services	No of shares	Value – $'000
Serina Bierer	420,000	23
Philip Dimmock	312,500	16
Tim Parson	325,000	17
Caravel	24,553	1
Taoudeni	72,120	4
St Brides	500,000	27
Spark	187,500	11
Total	1,841,673	99

Also on 11 June 2018, 4,695,717 shares at 4p ($250,000) were issued on behalf of Block Norioskhevi Limited as part of the PSC purchase agreement, and 18,782,870 shares were issued at 4p ($1,000,00) on behalf of Georgia New Ventures 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 $516,000 (£387,329).

On 4 March 2019, the Company issued 1,846,791 shares at an average price of 3.8p to various consultants and professional advisors in settlement of fees along with the settlement of the outstanding loan (refer Note 29) for a value of $99,000 as follows:

Shares issued in lieu of payment for services	No of shares	Value – $'000
Operational consultants	1,068,429	57
Spark	278,362	15
Starvest – loan settlement	500,000	27
Total	1,846,791	99

On 13 March 2019, the Company issued 9,550,870 ordinary shares at 4p with a value of $500,000 to GOG as part of the consideration for a further 46.5% interest in the West Rustavi PSC.

On 5 June 2019, the Company issued 1,091,291 ordinary shares at 15p with a value of $208,000 as full and final settlement of deferred consideration in line with the Taoudeni Resources Limited share purchase agreement (details of which are set out in the Company's Admission Document dated 4 June 2018). 977,383 of these ordinary shares were allotted to Plutus Strategies Limited, a company in which Paul Haywood, Chief Executive, and Niall Tomlinson, former Executive Director, have an interest. The agreement to issue these shares was completed on the 3rd March 2016 at a time when the Company's share price (adjusted for subsequent share consolidations) was 15p.

On 5 June 2019, the Company issued 377,834 ordinary shares to non-executive directors and a consultant in settlement of fees. 163,418 of the ordinary shares were allotted to Philip Dimmock, Chairman, at an average price of 3.67p in settlement of fees amounting to £6,000 ($7,628) due to him, and 69,957 ordinary shares were allotted to Chris Brown, Non-Executive Director, at an average price of 3.81p in settlement of fees of £2,667 ($3,390) due to him. The issue price of these shares has been calculated monthly, based on the 30-day volume weighted average price ("VWAP") for the periods to which these fees relate. The remaining 144,459 ordinary shares were allotted to a consultant to the Company as settlement for services with a value of $10,000 provided on the Georgian operations for the five months from January 2019 to May 2019.

On 15 July 2019, the Company issued 3,326,268 ordinary shares at 11.99p with a value of $500,000 to GOG for the final 10% interest in the West Rustavi PSC and 772,727 ordinary shares at an issue price of 11p per share to settle liabilities amounting to $106,655 (£85,000) for professional services provided to the Company.

23. Trade and Other Payables

	31 December 2019 $'000	30 June 2018 $'000
Trade and other payables	1,066	94
Accruals	77	124
	1,143	218

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

24. Share capital

Called up, allotted, issued and fully paid	No. Ordinary Shares	No. Deferred Shares	Nominal Value $
As at 30 June 2017	379,841,048	2,095,165,355	1,580,859
Issue of equity on 3 July 2017	10,588,235	–	6,855
Issue of equity on 1 August 2017	70,000,000	–	46,325
Issue of equity on 31 August 2017	29,411,765	–	19,038
Consolidation of Ordinary shares at 15 November 2017	(391,872,839)	–	–
Issue of equity on 11 June 2018	161,079,392	–	538,951
As at 30 June 2018	259,047,601	2,095,165,355	2,192,028
Issue of equity on 4 March 2019	1,846,791	–	6,045
Issue of equity on 13 March 2019	9,550,000	–	31,654
Issue of equity on 15 April 2019	1,837,500	–	5,941
Issue of equity on 1 May 2019	3,624,326	–	11,783
Issue of equity on 15 May 2019	225,000	–	715
Issue of equity on 21 May 2019	42,820,000	–	135,405
Issue of equity on 23 May 2019	1,723,650	–	5,434
Issue of equity on 4 June 2019	66,270,000	–	210,175
Issue of equity on 15 June 2019	1,469,125	–	4,672
Issue of equity on 13 June 2019	650,674	–	2,052
Issue of equity on 5 July 2019	375,000	–	1,174
Issue of equity on 15 July 2019	4,098,995	–	12,858
Issue of equity on 19 December 2019	900,000	–	2,930
As at 31 December 2019	394,438,662	2,095,165,355	2,622,866

On 3 July 2017, through an equity placing of 10,588,235 ordinary shares at a price of 0.85p per share, $117,000 of funds were raised in conjunction with $272,000 of convertible loan notes.

On 1 August 2017, the company issued 70,000,000 ordinary shares at a price of 0.85p per share with a value of $788,000, for the acquisition of Satskhenisi Ltd and a 90% interest in the Satskhenisi PSC.

On 31 August 2017, the company raised $323,650 funds through the placing of 29,411,765 new shares at 0.85p per share.

On 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 on 11 June 2018 comprised of the following:

Issue of equity on AIM listing	Value ($)	Share issue price	No of shares
Shares issued on placing of £5 million	6,644,000	4p	125,000,000
GOG West Rustavi consideration	1,000,000	4p	18,782,870
GOG Norioskhevi consideration	250,000	4p	4,695,717
Conversion of loan notes	516,000	3.6p	10,759,132
Shares issued in lieu of services	99,000	4p	1,841,673
			161,079,392

On 11 June 2018, the Company raised gross proceeds of $6,644,000 through the placing of 125,000,000 ordinary shares at 4p per share.

On 11 June 2018, the Company issued 18,782,870 ordinary shares at 4p with a value of $1,000,000 to Georgian Oil and Gas for a further 20% interest in the West Rustavi PSC.

On 11 June 2018, the Company issued 4,695,717 shares at 4p with a value of $250,000 to GOG as part of the purchase consideration for the Group's 100% interest in the Norioskhevi PSC.

On 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 with a value of $516,000.

On 11 June 2018, the Company issued 1,841,673 shares at 4p to various consultants and professional advisors in settlement of fees. This issue was apportioned between directors (1,057,500 shares of value $56,000), and consultants (784,173 shares of value $43,000). See note 22 for further information.

On 4 March 2019, the Company issued 1,846,791 shares at an average price of 3.8p to various consultants and professional advisors in settlement of fees along with the settlement of the outstanding loan (refer Note 29).

On 13 March 2019, the Company issued 9,550,000 ordinary shares at 4p with a value of $500,000 to GOG as part of the consideration for a further 46.5% interest in the West Rustavi PSC.

On 15 April 2019, the Company issued 1,837,500 ordinary shares pursuant to the exercise of a warrant at 4p.

On 1 May 2019, the Company issued 3,624,326 ordinary shares pursuant to the exercise of a warrants at 4p.

On 15 May 2019, the Company issued 225,000 ordinary shares pursuant to the exercise of a warrant at 4p.

On 21 May 2019, the Company raised gross proceeds of $5,958,000 through the placing of 42,820,000 ordinary shares at 11p per share.

On 23 May 2019, the Company issued 1,723,650 ordinary shares pursuant to the exercise of options at 4p.

On 4 June 2019, the Company raised gross proceeds of $9,248,000 through the placing of 66,270,000 ordinary shares at 11p per share.

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

On 5 June 2019, the Company issued 377,834 ordinary shares to non-executive directors and a consultant in settlement of fees. 163,418 of the ordinary shares were allotted to Philip Dimmock, Chairman, at an average price of 3.67p in settlement of fees amounting to $7,628 (£6,000) due to him, and 69,957 ordinary shares were allotted to Chris Brown, Non-Executive Director, at an average price of 3.81p in settlement of fees of $3,390 (£2,667) due to him. The issue price of these shares has been calculated monthly, based on the 30-day volume weighted average price ("VWAP") for the periods to which these fees relate. The remaining 144,459 ordinary shares were allotted to a consultant to the Company as settlement for services with a value of $10,000 provided on the Georgian operations for the five months from January 2019 to May 2019.

On 13 June 2019, the Company issued 650,674 ordinary shares pursuant to the exercise of a warrants at 4p.

On 5 July 2019, the Company issued 375,000 ordinary shares pursuant to the exercise of a warrant at 4p.

On 15 July 2019, the Company issued 3,326,268 ordinary shares at 11.99p with a value of $500,000 to GOG for the final 10% interest in the West Rustavi PSC and 772,727 ordinary shares at an issue price of 11p per share to settle liabilities amounting to $106,655 (£85,000) for professional services provided to the Company.

On 13 December 2019, the Company issued 900,000 ordinary shares pursuant to the exercise of a warrant at 4p.

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.

25. Share premium account

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

	$'000
Balance at 1 July 2017	3,536
Premium arising on issue of equity shares	9,182
Share issue costs	(507)
Prior year restatement, Taoudeni	10
Balance at 30 June 2018	12,221

26. 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
Foreign exchange reserve	Exchange differences on translating the net assets of foreign operations
Accumulated deficit	Cumulative net gains and losses recognised in the income statement and in respect of foreign exchange.

27. Warrants

	Number of Warrants	31 December 2019 Weighted average exercise price	Number of Warrants	30 June 2018 Weighted average exercise price
Outstanding at the beginning of the period	11,142,115	6p	4,045,151	125p
Additions	6,011,308	11p	8,862,500	4p
Exercised	(7,612,500)	4p	–	–
Lapsed	(1,470,588)	15p	–	–
Share capital reorganisation effect	–	–	(1,765,536)	–
Outstanding at the end of the period	8,070,335	10p	11,142,115	6p

As at 31 December 2019, all warrants were available to exercise and were exercisable at prices between 4p and 12.5p (30 June 2018: 4p and 15p). The weighted average life of the warrants is 3.2 years (30 June 2018: 2.1 years). The additions represent warrants issued with three year terms (30 June 2018: terms ranging from 81 days to 5 years).

28. Share based payments

During the period, 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 $862,000 for the 18 months period ended 31 December 2019. The equivalent charge for the year ended June 2018 was $201,000 which was restated as of 30 June 2018, refer note 4. The warrants charge for the comparative period represents only 22 days' valuation charge, as all warrants became exercisable on AIM admission (11 June 2018).

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

	2019 $'000	2018 $'000 Restated
Share option scheme	660	275
Warrants charge	202	6
	862	281

Share Option Scheme

The Option Plan provides for an exercise price equal to or higher than the closing market price of the Group shares on the date of the grant. The vesting period varies between 66 days to 3 years. The options expire if they remain unexercised after the exercise period has lapsed and have been valued using the Black Scholes model.

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

	2019 Options	2019 Weighted average exercise price	2018 Options	2018 Weighted average exercise price
Outstanding at beginning of period/year	23,698,332	$0.05	1,200,000	$0.03
Granted during the period	6,325,000	$0.15	22,498,332	$0.05
Exercised during the period	(1,723,650)	$0.05	–	–
Expired during the period	(861,826)	$0.05	–	–
Outstanding at the end of the period	27,437,856	$0.07	23,698,332	$0.05
Exercisable at the end of the period	12,494,603	$0.04	5,600,000	$0.03

The weighted average exercise price of the share options exercisable at 31 December 2019 is $0.04 (30 June 2018: $0.03). The weighted average contractual life of the share based payments outstanding at 31 December 2019 is 8.5 years (30 June 2018: 9.8 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	$0.04	$0.01	$0.03	84%	5.5 years	1.16%	0%
6 April 2018	4,400,000	$0.05	$0.04	$0.03	84%	10 years	1.34%	0%
11 June 2018	18,098,332	$0.04	$0.05	$0.05	84%	10 years	1.23%	0%
21 October 2019	6,325,000	$0.05	$0.06	$0.15	109%	9.0 years	0.63%	0%

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

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

29. Borrowings

	31 December 2019 $'000	30 June 2018 $'000
Short term loans – unsecured	–	59

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

During the year ended 30 June 2018, a convertible loan note was issued which carried a 10% interest rate. The loan note converted on AIM listing, at a 10% discount to the share price on admission to AIM.

As at 30 June 2018, the directors considered it appropriate to classify the loan balance of $59,000 as current. The interest was payable annually at the rate of 20%. There was no agreement on the term of the loan.

During the current period, the Company reached a settlement agreement on the loan for an amount of £20,000 ($27,000), through the issue of 500,000 at £0.04p, resulting in a gain on settlement of loan of £24,550 ($32,000) being recorded in finance income.

Movement in borrowings is analysed as follows:

	2019 $'000	2018 $'000
At beginning of period	59	325
Proceeds from issue of loans	–	206
Interest accrued	–	44
Settlement of loan through issue of shares	(27)	–
Gain on settlement of loan recorded through SOCI	(32)	–
Conversion of convertible of loan notes	–	(516)
At end of period	–	59

The non-cash movement on the settlement of the convertible loan note:

			Non-cash changes		
	1 July 2017 $'000	Cash flows $'000	Interest Accrued $'000	Conversion through share issue $'000	30 June 2018 $'000
Convertible loan	266	206	44	(516)	–

30. Financial instruments

Capital Risk Management

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

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

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

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

Fair Value Measurements Recognised in the Statement of Financial Position

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

– Level 1 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

– Level 2 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

– Level 3 assets are assets whose fair value cannot be determined by using observable inputs or measures, such as market prices or models. Level 3 assets are typically very illiquid, and fair values can only be calculated using estimates or risk-adjusted value ranges.

Credit risk

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

For deposits lodged at banks and financial institutions these are all held through a recognised financial institution. The maximum exposure to credit risk is $6,494,000 (2018: $5,278,000). The Group does not hold any collateral as security.

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

The Company has made unsecured interest-free loans to its subsidiary companies. Although the loans are repayable on demand, they are unlikely to be repaid until the projects become successful and the subsidiaries start to generate revenues. An assessment of the expected credit loss arising on intercompany loans is detailed in note 1 of the parent company financial statements on page 79.

The amounts owed by the subsidiaries to the Company were as follows:

	31 December 2019 $'000	30 June 2018 $'000
Georgia New Ventures Inc.	12,503	1,660
Block Norioskhevi Ltd	3,432	1,771
Satskhenisi Ltd	1,116	957
Block Operating Company LLC	182	–
	17,233	4,388

Market risk

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

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

Currency risk

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

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

The Group's cash and cash equivalents and liquid investments are mainly held in US Dollars and Pounds Sterling. At 31 December 2019, 76% of the Group's cash and cash equivalents and liquid investments were held in US Dollars (2018: 0%).

A 10% increase in the strength of Sterling against the US Dollar would cause an estimated increase of $140,000 (2018: $480,000 increase) on the profit after tax of the Group for the year ended 31 December 2019, with a 10% weakening causing an equal and opposite decrease. The impact on equity is the same as the impact on profit after tax.

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

Liquidity risk

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

31. Categories of financial instruments

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

	31 December 2019 $'000	30 June 2018 $'000
Liabilities at amortised cost	1,143	277
	1,143	277
Cash and cash equivalents at amortised cost	6,494	5,278
Financial assets at amortised cost	166	139
	6,660	5,417

No collateral has been pledged in relation thereto.

32. Subsidiaries

At 31 December 2019, 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	
		2019	2018
Block Norioskhevi Ltd	British Virgin Islands	100%	100%
Satskhenisi Ltd	Marshall Islands	100%	100%
Georgia New Ventures Inc.	Bahamas	100%	100%
Block Operating Company LLC*	Georgia	100%	–
Ensign Resources Limited**	Isle of Man	100%	100%

* Incorporated on 9 August 2019

** Subsequent to period end, the company was liquidated

Subsidiaries – Nature of business

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

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

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

Registered Office

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

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

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

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

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

33. Commitments

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

Operating lease commitment

UK operating lease commitment

At 31 December 2019 and 30 June 2018, the total of future minimum lease payments under non-cancellable operating leases for each of the following periods was:

	31 December 2019 $'000	30 June 2018 $'000
Within 1 year	37	29
Between 1 and 5 years	–	34
Total	37	63

34. Related party transactions

Key management personnel comprises of the directors and details of their remuneration are set out in Note 8 and the 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.

On 5 June 2019, the Company issued:

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

(b) 163,418 Ordinary Shares to Philip Dimmock, Non-Executive Chairman, at an average price of 3.67p in payment of fees amounting to £6,000 ($7,628) due to him and 69,957 Ordinary Shares to Chris Brown, Non-Executive Director, at an average price of 3.81p in payment of fees of £2,667 ($3,390) due to him. The issue price of these shares has been calculated monthly, based on the 30 day volume weighted average price for the periods to which these fees relate. The agreement to issue shares semi-annually in lieu of fees was made in 2018. The reason these shares were not issued until 5 June 2019 is that, for a large part of 2019, the Company was in a closed period and unable to issue shares to directors.

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

During the period, the Company registered as an employer in Canada and Canadian income tax and employee's social security were payable. In December 2019, the Company paid these liabilities of $77,000 for Roger McMechan to the tax collector during December 2019 and this effectively formed a loan to the director. The Company is currently negotiating a repayment plan with Roger, with the loan expected to be repaid in full by 31 July 2020.

35. Subsequent events

On 25 March 2020, Block Energy Plc, the exploration and production company focused on Georgia, announced that it had entered into a sale and purchase agreement with Schlumberger B.V. ("Schlumberger") to acquire its subsidiary Schlumberger Rustaveli Company Limited ("SRCL") ("the Acquisition"). Consideration for the Acquisition will be satisfied by the issue of share options ("Options") that will give Schlumberger the right to acquire 120 million 0.25p ordinary shares in Block Energy Plc, representing 23.3% of Block's enlarged ordinary share capital, at a nil exercise price ("Base Options"). SRCL is being acquired on a debt-free, cash-free basis. If it is determined that SRCL has net working capital assets following completion, Block will issue up to 10 million additional Options to Schlumberger. For this purpose, it is agreed that the Options are valued at $0.05 each. This imputes a value to the Base Options of $6 million. The Options are exercisable between 12 and 24 months from completion of the transaction, unless there is a change of control or general offer in respect of the Company, in which case they are exercisable immediately. Completion of the Acquisition is subject to the fulfilment of the following conditions precedent within six months from the date Georgia's borders are reopened:

(a) Regulatory approvals being obtained in Georgia and the United Kingdom;

(b) No catastrophic event occurring prior to completion in relation to the assets that would constitute a material adverse change; and

(c) Completion of the audit of SRCL's accounts for the year ended 31 December 2019.

Following the period end, owing to the combined impacts of lower demand for oil caused by COVID-19 and the Russia–Saudi Arabia oil price war, the Brent oil price collapsed from over $50 per barrel at the start of March 2020 to less than $20 per barrel in April 2020. The Company has responded to the low oil price by postponing all new capital expenditure and reducing the monthly cash burn in Georgia by 40% from $107,000 to $64,000 through a combination of cost-cutting and deferral of operating and administration expenses. In the UK, directors and employees have agreed a scheme in which, with effect from 1 April 2020, 40% of their salaries will be paid in nil-cost options to acquire ordinary shares in the Company, reducing monthly cash salary costs. Options will be priced at a volume-weighted average price ("VWAP") over the monthly salary period and the first options are expected to be based on the VWAP for the month of April 2020 and issued in early May 2020.

Parent Company Statement of Financial Position

At 31 December 2019

	Note	2019 $'000	2018 Restated $'000	2017 Restated $'000
Non-current assets				
Investments	4	1	1	–
Intangible assets	5	–	–	–
Property, plant and equipment	6	11	–	850
		12	1	850
Current assets				
Trade and other receivables	7	16,888	4,038	802
Cash and cash equivalents	8	5,865	5,274	279
Total current assets		22,753	9,312	1,081
Total assets		22,765	9,313	1,931
Capital and reserves attributable to equity shareholders				
Share capital	10	2,623	2,192	1,581
Share premium		27,985	12,221	3,536
Other reserves		1,115	460	189
Foreign exchange reserve		400	(75)	–
Accumulated deficit		(9,620)	(5,819)	(3,779)
Total equity		22,503	8,979	1,527
Current liabilities				
Trade and other payables	11	262	275	83
Borrowings	12	–	59	321
Total current liabilities		262	334	404
Total equity and liabilities		22,765	9,313	1,931

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

The Company's loss for the period from continuing and discontinued operations is $4,008,000 (2018: loss of $2,040,000).

The financial statements were approved by the Board of Directors and authorised for issue on 30 April 2020 and were signed on its behalf by:

William McAvock	Paul Haywood
Director	**Director**

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

Parent Company Statement of Changes in Equity

At 31 December 2019

	Share capital $'000	Share premium $'000	Accumulated deficit $'000	Other Reserve $'000	Foreign Currency Reserve $'000	Total equity $'000
Balance at 30 June 2017 (restated to $US)	1,581	3,536	(3,640)	–	–	1,477
Prior year restatement	–	–	(189)	189	–	–
Balance at 30 June 2017 (restated to $US)	1,581	3,536	(3,829)	189	–	1,477
Loss for period (restated in $US)	–	–	(1,886)	–	–	(1,886)
Prior period restatement – share based payments	–	–	(154)	–	–	(154)
Total comprehensive loss for the period	–	–	(2,040)	–	–	(2,040)
Exchange differences on translation of foreign operations	–	–	50	–	(75)	(25)
Total comprehensive loss for the period	–	–	(1,990)	–	(75)	(2,065)
Shares issued	611	9,182	–	–	–	9,793
Cost of issue	–	(507)	–	–	–	(507)
Share based payments	–	–	–	127	–	127
Prior year restatement – SBP	–	–	–	154	–	154
Prior year restatement – Taoudeni	–	10	–	(10)	–	–
Share based payments – restated	–	10	–	271	–	281
Total transactions with owners	611	8,685	–	271	–	9,567
Balance at 30 June 2018 – restated and unaudited	2,192	12,221	(5,819)	460	(75)	8,979
Loss for the 18 months period	–	–	(4,008)	–	–	(4,008)
Exchange differences on translation of foreign operations	–	–	–	–	475	475
Total comprehensive income for the 18 months period	–	–	(4,008)	–	475	(3,533)
Shares issued	431	16,655	–	–	–	17,086
Cost of issue	–	(891)	–	–	–	(891)
Share based payments	–	–	207	655	–	862
Total transactions with owners	431	15,764	207	655	–	17,057
Balance at 31 December 2019	2,623	27,985	(9,620)	1,115	400	22,503

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

Parent Company Statement of Cashflows

For the 18 months period ended 31 December 2019

	Note	2019 $'000	Restated 2018 $'000
Operating activities			
Loss for the period before income tax		(4,008)	(2,040)
Finance income		(180)	(1)
Finance expense		3	48
Share based payments expense	2	862	246
Foreign exchange movement		549	–
AIM admission costs		–	519
Net cash flow from operating activities before changes in working capital		(2,774)	(1,228)
(Increase)/Decrease in trade and other receivables	7	(23)	627
Increase in trade and other payables	11	14	79
Net cash flow used in operating activities		(2,783)	(522)
Investing activities			
Finance income		37	1
Expenditure in respect of property, plant and equipment		(14)	–
Inter-Group amounts (drawn down)		(11,828)	(874)
Cash used in investing activities		(11,805)	(873)
Financing activities			
Issue of ordinary share capital		16,086	7,061
Costs related to issue of ordinary share capital		(891)	(1,024)
Interest paid		–	(48)
Convertible loan notes issued	12	–	484
Net cash from financing activities		15,195	6,473
Net increase in cash and cash equivalents in the period/year		607	5,078
Cash and cash equivalents at start of period/year		5,274	280
Effects of foreign exchange		(16)	(84)
Cash and cash equivalents at end of period/year	8	5,865	5,274

Please refer to note 9 in the Parent company notes for non-cash transactions.

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

Notes to the Parent Company Financial Statements

For the year ended 31 December 2019

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.

Going concern

The directors have prepared cash flow forecasts for a period of 14 months from the date of signing of these financial statements. The Group's forecasts include a number of enacted cost saving measures and the forecasts are reviewed regularly in order to assess whether any further actions are required. The Group is in the final stages of negotiating to engage Bago LLC to construct a gas pipeline and to revise the sales agreement for West Rustavi gas. The forecasts assume the gas pipeline will be constructed and the gas will be sold, and indicate the Group has sufficient funds to complete the construction of the gas project and to meet its liabilities as they fall due until April 2021. The financial benefit of any additional capital projects would be assessed against capital requirements and balanced with ensuring that the Group and the Company can continue to meet its liabilities and commitments through to April 2021. The Company's forecasts are considered together with the Group's forecasts.

The directors note that COVID-19 has had a significant negative impact on the global economy and oil prices have fallen significantly, which may mean it is harder to secure additional funding than it has historically been. The global pandemic may also bring practical challenges to the timetables for the construction of the gas pipeline and the consequent sale of gas. The directors are confident that current capital projects are funded and have a reasonable expectation that they could secure additional funding, if needed, to fund additional capital projects. However, these conditions necessarily indicate that a material uncertainty exists which may cast significant doubt over the Group and Company's ability to continue as a going concern and therefore their ability to realise their assets and discharge their liabilities in the normal course of business.. Whilst acknowledging this material uncertainty, the directors remain confident of making further cost savings when required and therefore the directors consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

New standards adopted in the period

No loss allowance were recognised as a result of the application of the ECL model. This is a result of the existing incurred loss approach under IAS 39 being replaced by the forward-looking ECL model approach of IFRS 9.

The impairment assessment of the loan has been performed using a lifetime ECL model.

The loans to group undertakings are classified as repayable on demand. IFRS 9 requires consideration of the expected credit risk associated with the loans. As the subsidiary companies do not have sufficient liquid assets to sell to repay the loan, should it be recalled, the conclusion reached was that the loan should be categorised as stage 3.

The directors have also assessed the cash flow scenarios of the above considerations. Estimations were made regarding the credit risk of the counterparty and the underlying probability of default in the credit loss scenario. The scenarios identified by management included a fire-sale. The scenario considered technical data, necessary licences obtained, and the Company's ability to raise cash and sell the project. The credit risk of the intercompany loan was assessed at the date of initial application of IFRS 9, being 1 July 2018, and again at the current period end. There had been no change in the significant credit risk at 31 December 2019.

Restatement

During the year ended 30 June 2018, the share based payments charge included £35,514 ($47,000) in respect of 4,400,000 options with a value of £152,501 ($201,000) granted to Paul Haywood on 6 April 2018. All of these options vested on listing on AIM on 11 June 2018 and, therefore, the whole value of £152,501 ($201,000) should have been charged in the year ended 30 June 2018. This resulted in an understatement of the expense by £116,987 ($154,000) in the year ended 30 June 2018. Consequently, the results for the year ended 30 June 2018 have been restated to include the additional share based payments charge of $154,000.

During the year ended 30 June 2016, the Company acquired 100% of the share capital of Taoudeni Resources Limited. The consideration payable comprised £29,307 ($38,000) cash, 599,177,916 ordinary shares (with a nominal value and fair value of 0.05 pence per share) payable on acquisition ("Initial Consideration Shares") and 617,702,713 ordinary shares payable at a later stage ("Deferred Consideration Shares"). At the time of the acquisition, the Company's shares were trading at 0.05 pence per share, resulting in a fair value of £299,589 ($388,000) for the Initial Consideration Shares and £308,851 ($400,000) for the Deferred Consideration Shares.

However, in the financial statements for the year ended 30 June 2016, the £308,851 ($400,000) value of the Deferred Consideration Shares was not included in the cost of acquisition and the consideration payable. As at 30 June 2016, the effect of the error was to understate the value of E&E assets (included in intangible assets) and other reserves (share based payments) by £308,851 ($400,000).

In the financial statements for the year ended 30 June 2017, the principal asset that had been acquired with Taoudeni Resources Limited (i.e. 100% of the shares in Antubia Resources Limited) was held for sale and it was fair valued at its carrying value of £329,000 ($426,000) and there was gain or loss recorded in the income statement. However, if the £308,851 ($400,000) value of the Deferred Consideration

Shares had been included in the value of the asset held for sale, it would have been written down to its fair value of £329,000 ($426,000) and there would have been a £308,851 ($400,000) reduction in the value of the E&E assets and a loss of £308,851 ($400,000) recognised in the income statement for that year.

During the year ended 30 June 2018, it was identified that some of the sellers of Taoudeni Resources Limited waived their rights to receive Deferred Consideration Shares during the year ended 30 June 2017, but this transaction was not recognised in the financial statements for the year ended 30 June 2017. If the waiver of rights to receive deferred consideration shares had been recognised in the financial statements, the effect would have been to decrease other reserves by £163,425 ($211,000) and increase the retained deficit by the same amount.

During the year ended 30 June 2018, some of the Deferred Consideration Shares were issued. 72,120 ordinary shares were issued instead of 18,029,997 Deferred Consideration Shares to adjust for a 1 for 50 share split and a 1 for 5 share consolidation that had taken place. Consequently, to adjust for the share split and consolidation, the share price at the time of acquisition was also adjusted from 0.05 pence per share to 12.5 pence per share. However, in the financial statements for the year ended 30 June 2018, the 72,120 ordinary shares were issued were valued using a share price of 4 pence per share (being the share price at the time of issue) instead of the share price at the time of the acquisition of Taoudeni Resources Limited as adjusted for the share split and share consolidation of 12.5 pence per share. As at 30 June 2016, the effect of the error was to understate share premium by £7,663 ($10,000) and overstate other reserves (share based payments) by £7,663 ($10,000).

Balance sheet (extract)	30-Jun-18 Restated in USD $'000	Increase/ (Decrease) $'000	1 July 2018 (Restated) Restated and unaudited $'000	30-Jun-17 £'000	30-Jun-17 Restated in USD $'000	Increase/ (Decrease) $'000	1 July 2017 (Restated) Restated and unaudited $'000
Share premium	12,211	10	12,221				
Other reserves	316	144	460	–	–	189	189
Accumulated deficit	(5,665)	(154)	(5,819)	(2,808)	(3,640)	(189)	(3,829)

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 4 below.

2. Employees

	Year ended 31 December 2019 $'000	Year ended 30 June 2018 (restated)* $'000
Employment costs consist of:		
Wages and salaries	1,222	337
Pension	251	–
Shares issued in lieu of services	–	56
Share based payments	862	239
Social security costs	108	16
	2,443	648

The average monthly number of employees during the period was 8 (2018: 2) split as follows:

	18 months period ended 31 December 2019 $'000	Year ended 30 June 2018 $'000
Management	5	2
Technical	2	–
Administration	1	–
	8	2

3. Directors' Emoluments

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

4. Investments

Investments of $1,002 (2018: $1,002) relate to the share capital held in subsidiaries of the Company. Please refer to note 32 in the Group notes for more detail.

5. Intangible assets

	Licences $'000	Exploration and Evaluation cost $'000	Total $'000
Cost			
At 1 July 2018	–	–	–
Transfer to Subsidiary	–	–	–
At 31 December 2019	–	–	–

	Licences $'000	Exploration and Evaluation cost $'000	Total $'000
Cost			
At 1 July 2017	813	49	862
Additions	–	–	–
Transfer to subsidiary	(830)	(50)	(880)
Forex	17	1	18
At 30 June 2018	–	–	–

The transfer to subsidiary balances in the prior period represent intangible costs paid by the Company on behalf of the subsidiaries. Ownership of these costs is now held in the respective subsidiaries.

6. Property, plant and equipment

	Computer Equipment $'000	Office Equipment $'000	Total $'000
Cost			
At 1 July 2018	–	–	–
Additions	13	1	14
Depreciation	(3)	–	(3)
At 31 December 2019	10	1	11

7. Trade and other receivables

	2019 $'000	2018 $'000
Prepayments	22	5
Other receivables	139	132
Amounts due from Group undertakings	16,727	3,901
	16,888	4,038

All of the above amounts are due within one year.

All trade and other receivables are denominated in pounds sterling. Amounts due from Group undertakings are denominated in US dollars and interest free and repayable on demand.

The adoption of IFRS 9 has impacted the parent company. This is a result of the existing incurred loss approach under IAS 39 being replaced by the forward-looking expected credit losses ("ECL") model approach of IFRS 9. The ECL model is required to be applied to the intercompany loans receivable from subsidiary companies, which are held at amortised cost. Please refer to note 1 on page 79 for the detail on the impact and the financial assets accounting policy included in note 1 on pages 54 to 55.

The Company has opted for the transition method, requiring a retrospective application for the first time adoption of IFRS 9. No differences were identified to be processed at the date of initial application (i.e. 1 July 2018).

8. Cash at bank

	2019 $'000	2018 $'000
Cash and cash equivalents	5,865	5,274

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

At 31 December 2019, the Company had cash balances which comprised balances held in US dollars, pounds sterling and Canadian dollars.

9. Non – cash transactions

Details of non cash transactions can be found in note 22 of the consolidated financial statements.

10. Share capital

Details of share capital and movements in the period are set out in note 24 to the consolidated financial statements.

11. Trade and other payables

	2019 $'000	2018 $'000
Trade and other payables	195	54
Accruals	67	109
Amounts due to Group undertakings	–	112
	262	275

Trade and other payables at 31 December 2019 comprised balances in US dollars and pounds sterling. For the prior year, all trade and other payables were denominated in pounds sterling.

12. Borrowings

Please refer to note 29 in consolidated notes. The movement in borrowings for the Company was the same as for the Group.

13. Financial Instruments

Capital Risk Management

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

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

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

Fair Value Measurements Recognised in the Statement of Financial Position

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

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

Credit risk

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

For deposits lodged at banks and financial institutions these are all held through a recognised financial institution. The maximum exposure to credit risk is $5,865,000 (2018: $5,274,000). The Group does not hold any collateral as security.

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

Market risk

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

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

Currency risk

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

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

The Group's cash and cash equivalents and liquid investments are mainly held in US Dollars and Pounds Sterling. At 31 December 2019, 76% of the Group's cash and cash equivalents and liquid investments were held in US Dollars (2018: 0%).

A 10% increase in the strength of Sterling against the US Dollar would cause an estimated increase of $140,000 (2018: $480,000 increase) on the profit after tax of the Group for the year ended 31 December 2019, with a 10% weakening causing an equal and opposite decrease. The impact on equity is the same as the impact on profit after tax.

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

Liquidity risk

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

14. Categories of financial instruments

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

	31 December 2019 $'000	30 June 2018 Restated $'000
Liabilities at amortised cost	262	222
	262	222
Cash and cash equivalents at amortised cost	5,865	5,274
Trade receivables at amortised cost	16,888	4,038
	22,753	9,312

15. Commitments

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

Operating lease commitment

UK operating lease commitment

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

	2019 $'000	2018 $'000
Within 1 year	37	29
Between 1 and 5 years	–	34
Total	37	63

16. Related party transactions

At 31 December 2019, the following subsidiaries owed the parent company for payments made and recovered on their behalf.

- Block Norioskhevi Ltd – $3,432,000 (30 June 2018: $1,771,000)
- Georgia New Ventures Inc – $12,503,000 (30 June 2018: $1,660,000)
- Satskhenisi Ltd – $1,116,000 (30 June 2018: $957,000)
- Block Operating Company LLC – $182,000 (30 June 2018: $nil)
- Ensign Ltd (Antubia resources) – $nil (2018: $85,000 owed to Ensign Ltd)

Further detail on related party transactions can be found in note 34 in the consolidated financial statements. The disclosure of fees paid to consultancy companies for key management services can be seen in the Remuneration Report.

17. Subsequent events

Please refer to note 35 to the consolidated financial statements.

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